

Draft

**STUDY ON
THE STATE OF DOMESTIC COMMERCE IN
PAKISTAN**

STUDY 9

REAL ESTATE IN PAKISTAN

for

**The Ministry of Commerce
Government of Pakistan**

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List of Abbreviations

ABAD	Association of Builders and Developers
ADB	Asian Development Bank
ADB I	Asian Development Bank Institute
APCA	All Pakistan Contractors Association
ATT	Afghan Trade Transit
BAF	Bank AlFalah
BCI	Business Competitiveness Index
BOR	Board of Revenue
CAA	Civil Aviation Authority
CBM	Cubic meter
CBR	Central Board of Revenue
CDA	Capital Development Authority
CIB	Credit information bureau
CMR	Contract for the International Carriage of Goods by Road
CPI	Corruption Perceptions Index
CPIA	Country Policy and Institutional Assessment
DFID	Department for International Development
DHA	Defense Housing authority
EDF	Export Development Fund
EIU	Economist Intelligence Unit
EOS	Executive Opinion Survey
EPB	Export Promotion Bureau
ESCAP	Economic and Social Development in Asia and the Pacific
FBS	Federal Bureau of Statistics
FCL	Full Container Load
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
Ft	Foot
FY	Fiscal Year
GCI	Global Competitiveness Index
GCR	Global Competitiveness Report
GD	Goods Declaration
GDP	Gross Domestic Product
GoP	Government of Pakistan
GOR	Government Officials Residences
GRT	Gross Register Tonnage
GST	General Sales Tax
HBFC	Housing Building Finance Corporation
HBL	Habib Bank Limited
HDR	Human Development Report
HFI s	Housing Finance Institutions
IFC	International Finance Corporation
IFS	International Financial Statistics
IMF	International Monetary Fund
ISAL	Informal Subdivision of Agricultural Land
ISO	International Standards Organization
IT	Information Technology
ITU	International Telecommunications Union

KBCA	Karachi Building Control Authority
KDA	Karachi Development Authority
KESC	Karachi Electric Supply Corporation
KM(s)	Kilometer(s)
KPT	Karachi Port Trust
KSE	Karachi Stock Exchange
LCL	Less Than Container Load
LOA	Length Overall
MCB	Muslim Commercial Bank
MENA	Middle East and North Africa
MOC	Ministry of Commerce
MOD	Ministry of Defense
MTDF	Medium Term Development Framework
NBP	National Bank of Pakistan
NCS	National Conservation Strategy
NER	Net Primary School Enrollment Rate
NHA	National Highway Authority
NIE	Newly industrialized economy
NIT	National Institute of Transport
NLC	National Logistics Cell
NTN	National Tax Number
NTRC	National Transportation Research Center
NTTFC	National Trade and Transport Facilitation Committee
NWFP	North West Frontier Province
PASSCO	Pakistan Agricultural Storage and Services Corporation
PEC	Pakistan Engineering Council
PHDEB	Pakistan Horticulture Development and Export Board
PIAC	Pakistan International Airlines Corporation
PIDE	Pakistan Institute Of Development Economists
PIHS	Pakistan Integrated Household Survey
PKR	Pakistani Rupee
PQA	Port Qasim Authority
PR	Pakistan Railways
PREF	Pakistan Real Estate Federation
PSDP	Public Sector Development Program
R&D	Research and Development
REER	Real Effective Exchange Rate
REITs	Real Estate Investment Trusts
RICS	Royal Institute of Chartered Surveyors
SAI	Social Accountability International
SBP	State Bank of Pakistan
SKAA	Sindh Katchi Abadis Authority
SME	Small and Medium Enterprises
SPS	Sanitary and Phytosanitary
SRO	Statutory Regulation Order
Std	Standard
TEP	Total Factor Productivity
TEU	Twenty-Foot Equivalent Units
TI	Transparency International
TOR	Terms of Reference

TSDI	Transport Sector Development Initiative
TTFP	Trade and Transportation Facilitation Program
UK	United Kingdom
UNDP	United Nations Development Program
US	United States
USA	United States of America
USC	Utility Stores Corporation
USD	United States Dollars
WAPDA	Water and Power Development Authority
WDI	World Development Indicators
WEF	World Economic Forum
WGI	Worldwide Governance Indicators
WTO	World Trade Organization

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TORs

Study 9: Real Estate

To develop information on these markets, the consultants will through sample survey methods

1. Develop output, price and value addition indices,
2. Develop indicators of volume and margin growth,
3. Assess the degree of competition in the market.
4. Identify determinants of growth
5. Seek to identify impediments to growth.
6. The approach must be to understand market development in each area
7. Assess the regulatory and tax framework that support these markets for identifying facilitating policy measures. Describe the urban regulation framework and its impact on the construction industry.
8. Assess the state of brand-name development to identify possible impediments in it.
9. Assess the state of branch network development.
10. Any firms going overseas! If not why not?
11. Has skill requirement been a constraint? Or the quality of the education?
12. How has bank credit affected this industry?
13. Distinction between rural and agricultural markets to the extent necessary should be used.
14. assess the influence of governance
 - a. property rights
 - b. contract enforcement
 - c. rent control
 - d. Sharing space and franchising
 - e. law and order
 - f. urban zoning and planning regulation

Deliverables and benchmarks: The work has to be done closely with the office of the Trade Policy Advisor and his advisory team. The advisor will finalize each stage before the consultant progresses on to the next stage.

Stage 1. A report based on the following to be presented to the TPO and the steering committee.

- A survey of existing literature on real estate markets and information available on these markets in Pakistan.
- Conduct focus group meetings with key players in the area of study in several key cities such as Faisalabad, Lahore Karachi, Quetta and Peshawar. TPO must be invited to these meetings and will join where he can.

Stage 2. Based on the focus group reports, consultants will present a preview of their expected analyses and hypotheses. In the light of this expected work, the consultant will prepare questions for the questionnaire for the *common survey of study 9*. The questionnaire and the frameworks for analyses will be discussed and finalized by the steering committee.

Stage 3. Analysis of the survey and a preliminary report

Stage 4. The final report and presentation at conference

Stage 5. Finalise paper for conference volume

Who should apply? Reputable consultant with clear track record in surveys and economic analysis! The team must comprise of and be led by well-known economists, with a reputable degree, recognized publications and clear evidence of familiarity with market and regulation literature.

REAL ESTATE IN PAKISTAN*

by

**DR. M. K. NIAZI
AHMED JAMAL KHAN KHETRAN**

* For detailed survey results, please see separate volume entitled "Basic Statistics of the Sample Survey Date.

Executive Summary

1. This study is a part of series of studies¹ on the state of commerce in Pakistan sponsored by the Ministry of Commerce (MOC). Real estate market is crucial for promoting commerce and industry, growth and employment, and poverty reduction. The liberalization of the Pakistani economy has increased business opportunities and migration of the labor force to urban localities has led to an increase in the demand for both commercial and housing space. But there is very little literature available on real estate markets in Pakistan. The role of formal real estate investment markets in the process of economic development remains poorly understood. The lack of understanding is, in part, a direct result of the absence of reliable information on real estate values, yields and total returns. The study attempts to develop an information base on the real estate market through secondary resources, stakeholder consultations in main cities and a sample survey of real estate agents. The purpose is to understand and benchmark the size, status and degree of competition, with a view to analyze and identify determinants and impediments to growth including regulatory constraints, and make recommendations to develop effective real estate markets..

2. The Real Estate market is the market that encompasses all transactions which involve dealings in rights or access to land and buildings. It forms the backbone of the urban economy being a fixed factor market; hence an efficient Real Estate market is most important for a well functioning urban environment. An efficient Real Estate market is one that encourages quick development and transaction of land, provides reasonable access to all income groups, environmentally sound and the system governing the land markets should be integrated with other laws and regulations governing land, such as planning, taxation and provision of public infrastructure and services.

3. According to the World Bank, in most countries, real estate (including land) accounts for between half and three-quarters of national wealth. In Pakistan about 250 ancillary industries, such as cement, steel, brick, timber and building materials, are dependent on the real estate industry. These combined make it the second largest employer next only to agriculture.

4. The development of the real estate markets in Pakistan has been constrained by a wide range of factors. The constraints, in many cases are a complex product of the old and new historical processes, and ways in which the economy has been handled since 1947. The land administration practices are from the colonial era; the laws and regulations governing real estate development and investment are outdated; housing finance is mainly available to individuals in the higher income group; only a small percentage of the loans disbursed by housing finance companies go to builders and institutional developers; and, access to real estate professional services is not available to participants in real estate markets.

5. As property rights play a central role in sound, efficient and modern urban planning by lowering the need for costly state interventions, the development of clear and verifiable property rights is the cornerstone of the development of efficient urban land markets. Most of the laws governing various aspects of real estate in Pakistan date back to the 19th century. Pakistani Legislative Issues concerning Real Estate are listed in this chapter. The legal scenario is put forth, encompassing the relevant Acts, such as the Registration Act, 1908, Land Acquisition Act, 1894; urban land monopoly, Rent Control Act, 1959; Rent legislation background and Outcomes of rent control, The Stamps Act, 1899 and the Property tax.

¹ The other studies are on competitiveness, protection, subsidies and incentives regimes, retail markets, wholesale markets, storage and warehousing, transport, and a domestic commerce survey.

6. There is no common record of property rights and transactions in Pakistan. Basic information can be found in the local and district revenue offices. There is the lack of a general property system that could allow continuous updates and modifications and land changes in functions and users and no reliable link between land and proper titles. The government has begun efforts to computerize the land records in pilot projects in Punjab and Sindh.

7. There is a need for an efficiently organized finance system in the Real Estate market to ensure that the capital value held in the real estate market is not grossly under-utilized. Real estate finance is a vital element in the development of a dynamic housing and construction sector. Theoretically, bank lending is one of main sources of real estate funding, and there exist close connections between real estate prices and bank credit. To avoid over-exposing the banking system to the real estate market the relationship between the real estate and the financial sector needs to be understood and regulated.

8. The housing sector plays a major role in economic growth and stabilization through the creation of jobs in construction and materials and demand for financial services. The housing sector in Pakistan is still in its infancy when compared with other developing and developed countries. There is, however, tremendous potential for growth. The issues in the housing sector that threaten the growth achieved are high land prices, high and rising real interest rates and prices of construction materials. Although the ownership rate in Pakistan is high, (i.e., owned homes as a proportion of total dwellings) the quality of a large segment of dwellings leaves much to be desired and many of the externalities of housing are thus not captured. The process of producing housing involves a large number of actors. The government through its various institutions coordinates the functioning of these actors by supporting or regulating these activities.

9. In the fifties and sixties, Pakistan adopted green revolution technologies in the agricultural sector and also opted for large-scale industrialization. As a result of these two factors, there was massive rural-urban migration (majority of these belonged to the lower-income group). The scale of migration was too large for the State to manage and so instead of building houses, the state decided to adopt the site-and-services concept.

10. As a result of the failure of the government's policies to provide housing to low-income communities, katchi abadis developed all over urban Pakistan. Informal settlements created out of the subdivision of agricultural land have also increased (Compared with 1951, when only 17 percent of the population of Pakistan was living in the towns and cities, today the urbanites makes up 32 percent of the population in the country).

11. A housing census was conducted in 1980 and, again, in 1998. The census showed major differences in the housing conditions of urban and rural areas, and also between housing conditions in different provinces of Pakistan. Very little research has been carried on housing issues for rural areas. There is a need to understand the change that has taken place there as a result of the change from barter to a cash economy.

12. Pakistan spends \$5.2 billion on construction in a year. According to the **Federal Bureau of Statistics**, construction output accounts for 2% of GDP, with housing representing less than half that total. Output growth has been around 8% in 2003. The cost of construction has been rising; as a result smaller builders of housing projects lag behind due to the rising costs and the difficulty in accessing finance. High land and input costs, combined with the lack of financial depth of the local construction sector, has significantly impeded growth. A positive step taken by the government has been the formulation of the National Housing Policy and the measures taken to implement it. The objective of the policy is to create affordability of owning a housing unit, especially for the middle- and low-income groups in both urban and rural parts of the country.

13. The housing finance market is among the most important in the economy. It accounts for a sizeable portion of the production activity of a country, through its backward linkages to land markets, building materials, tools, durable goods and labor markets. During the last few years, favorable developments in the economy have facilitated the offering of housing finance by financial institutions. The increasing scope of finance for housing in Pakistan has led many local and foreign banks to be engaged in house financing activities.

14. The Ministry of Commerce needs to provide overall guidance on the content and organizational aspects of a real estate development program, especially in terms of the implications for a well functioning real estate market for the promotion of domestic commerce. A Results Based Framework should be used to establish a clear and transparent relationship between policy goals, objectives and targets as they relate to various instruments of policy intervention. The short term strategies this report recommends are relaxation of tenancy laws, zoning restrictions and building codes, making more land available for development, promoting Alternative Dispute Resolution (ADR) and expediting large land disputes through authoritative institutions or bodies (to mediate/arbitrate over land disputes).

15. The medium to long term strategies recommended in order to develop a well-functioning real estate and housing market are simplification and modernization of regulations on property rights and titling systems, dispute resolution of frozen properties, establishment of a system to collect and offer information related to real estate, the reform of taxation to promote the sale of real estate, encouraging foreign direct investment, promotion of real estate investment trusts, the reform of land subsidies and the need to build public-private partnerships for land development and housing provision.

16. With the rate of urbanization that Pakistan has been experiencing, there is a growing need for urban planning. Land use planners have to upgrade their skills considerably to monitor and forecasts land use trends and infrastructure needs in a manner consistent with the anticipated medium-term growth of the cities and their financial capabilities. It is recommended that Policy and Research Capacity be built up, through the establishment of a Pakistan Real Estate Federation (whose members should include professional real estate brokers) and a Housing and Real Estate Institute.

17. It is clear from the 2001 housing policy in Pakistan that the government is serious about facilitating the development of the housing and construction sector. By a number of criteria, Pakistan seems poised to jump onto a higher growth path. A number of reforms, however, need to be carried out and bottlenecks impeding the natural growth of the industry removed before the inherent potential can be realized.

Section 1

Introduction

1.1 Background

1. The real estate sector in Pakistan has assumed growing importance with the liberalization of the economy. The consequent increase in business opportunities and migration of the labor force has, in turn, increased the demand for commercial and housing space, especially rental housing. Developments in the real estate sector are being influenced by the developments in the retail, hospitality and residential sectors (e.g., hotels, malls, housing developments) industries, economic services (e.g., hospitals, schools) and information technology (IT)-enabled services (like call centers), etc., and vice versa.

1.2 Purpose of Research

2. This research was commissioned by the Ministry of Commerce as part of a larger study on Domestic Commerce. The main objective of this research is to develop information on the various aspects of the real estate sector in Pakistan, and to do an analysis of the barriers to developing an effective, real estate and property market. We set out to do this through an examination of available literature, by consulting with various stakeholders operating in this diverse sector, and, finally, by administering a country-wide questionnaire survey, which we hope will shed light on some of the facets of this sector.

1.3 Current Scenario

3. Real Estate markets in Pakistan have received little attention from researchers and policy makers, in contrast with the large volume of work on the foundation stages of real estate markets, such as land rights issues. The role of formal real estate investment markets in the process of economic development, therefore, remains poorly understood. The lack of understanding is, in part, a direct result of the absence of reliable information on real estate values, yields and total returns. Adair et al. (2004), commenting on the real estate investment markets in transitional East European economies, point out that “data transparency is a key characteristic of a mature market, and markets that are able to demonstrate that they possess such data have a competitive advantage and are more likely to attract private sector investment funds”. Indicators of real estate transparency produced by international real estate advisors (for example, Jones Lang LaSalle, 2004) also emphasize the importance of market data and benchmarks of investment return in creating efficient capital markets.²

4. It is also difficult to estimate the exact contribution of the real estate sector to gross domestic product (GDP) as it appears in a disaggregated and dispersed form in the National

2 Jones Lang LaSalle, 2006 Real Estate Transparency Index

Accounts Statistics. Residential housing and real estate services (activities of all types of dealers such as operators, developers and agents connected with real estate) is covered under the category 'real estate, ownership of dwellings, business and legal services'.

5. Further, current data on the sectors such as ownership of dwellings, real estate services, and construction are mostly not available and estimates for the benchmark year are prepared on the basis of base year data and projected for other years with the help of relevant indicators.

Section 2

Real Estate Market - Nature and Functions

6. The real estate market is the market that encompasses all transactions which involve dealings in rights or access to land and buildings. Broadly defined, real estate consists of a conglomerate of industrial and service sector actors; which may be:

- Construction; housing construction, as well as construction of commercial offices, retail, industrial, and large infrastructural projects such as roads, bridges, dams, etc.;
- Brokerage Services; property consultants, dealers, property managers, etc.;
- Financial Services; mortgage banks, real estate investment trusts (REITs); and
- Operations; architects, urban planners, etc

7. A number of other sectors of the economy also have strong linkages with the real estate sector. These include the labor sector, the cement and brick manufacturing industries, the utility sector, the household appliances and furniture industries. Real estate is perhaps the only sector which brings all these diverse actors together, and is, therefore, critical for the overall health of the nation, as it impacts the entire economy.

2.1 Real Estate Market and Urban Economy

8. The urban economy comprises three basic markets: the real estate market, the capital market, and the labor market. These are inextricably interlinked, and their efficient functioning depends on each other. The real estate market forms the backbone of the urban economy being a fixed factor market, and is most important for a well functioning urban environment. Unfortunately, most cities in Pakistan suffer from land market distortions caused by the failure of long-term land development and planning policies, ill-maintained records, as well as price distortions created by a nexus of corrupt interests.

9. The key to efficient real estate markets is in the easy and rapid availability of developed land. This means that there should be proper regulation in the urban periphery which facilitate and have sustainable plans for the long-term needs of urban residents. In Pakistan, as in most developing countries, the constraints to efficient land markets are more often political than technical.

2.2 Characteristics of Efficient Real Estate Markets

10. Once land is traded as a commodity a land market is considered to exist. A well-functioning land market could be defined as one which is:

- Efficient; the system governing the land market encourages quick development and transaction of land;
- Equitable; the system governing the land market provides reasonable access to all income groups;
- Environmentally sound; the system governing the land market protects its sustainable use for the good of both current and future users;
- Compatible; the system governing the land markets is integrated with other laws and regulations governing land, such as planning, taxation and provision of public infrastructure and services.

11. A poorly functioning real estate market leads to several ills, including land speculation, creation of slums and squatter settlements, environmental deterioration, and an inefficient urban development pattern which increases the cost of doing business in the city and adversely affects the urban economy. In Pakistan, there are additional causes for concern since the real estate markets are not as transparent as international practices. In the building industry, standards are not uniform or enforced. Property transactions, ownership records as well as land titles are unclear and the legal system is fraught with loopholes.

2.3 Functions of Efficient Real Estate Markets

12. An efficient real estate market is one of the most important pathways to economic prosperity through its role in allocating scarce land resources. The market is the means of access to real estate and ensures that there is ample opportunity and choice, range in terms of price, location, types of premises, tenure, and terms of occupancy across all sectors of the economy.

2.3.1 Productive activities

13. Since most economic activities require land, there is a need for real estate markets to ensure that land resources are available for the diverse needs of the productive sector. This implies that there are market mechanisms which allocate land according to its most productive use, through open competition amongst different parties. For the market to achieve this there must be minimal interference from the state, which should work at creating an equitable and accessible system of transaction, and allocation of available land resources.

2.3.2 Housing

14. In an economic scenario which is always changing, there is a need for the nation's workforce to locate, and re-locate in response to employment opportunities. In theory, an open market for housing facilitates this geographical mobility of labor. Activity in the residential market is widely recognized as an important barometer of a country's wider economic activity, and is a useful indicator of the overall health of the economy.

2.3.3 Investment

15. In a mature market, real estate is an important long-term investment vehicle owing to its characteristics of longevity and immovability. Opportunities to invest in it assure a more diverse portfolio, by allowing investments in property asset returns. Many investments in the economy involve land. Real estate involves land directly while other investments that take place on the surface or below the surface, be it in agriculture, forestry, fishing, industry,

mining, construction or services, they all use land either directly or indirectly. Hence, the cost, speed and convenience with which land is acquired contribute to the level of efficiency of the investment in question.

2.3.4 Relationships with the financial sector

16. Real estate can be used in ways which are independent of the type of occupancy it supports. In particular, land can be used as collateral to support borrowings. This makes the real estate market and the financial sectors interdependent, which can be both beneficial and threatening to the health of the overall economy. The exposure of the banking sector to real estate can take any form including:

- Holding of real estate assets in the bank's portfolios;
- Lending to customers for real estate purchases;
- Financing of real estate developers and construction companies;
- Lending to housing finance companies; and
- Relying on real estate to collateralize other kind of lending.

17. There is, therefore, a need for the government to regulate the relationship between the real estate and financial sectors. This relationship will be discussed in greater detail in later chapters.

Section 3

Valuation of Real Estate

18. Real estate, as a whole, and housing, in particular, is the single largest asset class. The resources locked up in land are huge. According to the World Bank, in most countries, real estate (including land) accounts for between half and three-quarters of national wealth. In the UK, land and buildings were estimated to comprise a total of 57% of the national wealth in 1997, while in the United States, real estate was estimated to represent almost 70% of all tangible capital in 1993, and the taxable value of real properties in the USA were estimated at nearly US\$6 trillion in 1991.³ In Bangkok alone, a conservative estimate put the value of real estate at 45% of the country's GDP in 1997. According to the Economist, the assets of developed economies assets at the end of 2002 were:

- Residential property: \$48 trillion;
- Commercial property: \$14 trillion;
- Equities: \$20 trillion;
- Government bonds: \$20 trillion;
- Corporate bonds: \$13 trillion; and
- Total: \$115 trillion

19. That makes real estate assets 54% and financial assets 46% of total stocks, bonds, and real estate assets.

3.1 Real Estate Asset Valuation in Pakistan

20. The importance of the real estate sector as a catalyst for growth can be gauged from the fact that it is the second largest employer next only to agriculture. This is because of the chain of backward and forward linkages that the sector has with the other sectors of the economy, especially with the housing and construction sector. About 250 ancillary industries, such as cement, steel, brick, timber and building materials, are dependent on the real estate industry.⁴ A unit increase in expenditure in this sector has a multiplier effect and the capacity to generate income as high as five times.

21. Very little is known about Real Estate Asset Valuation in Pakistan. According to the head of research at BMA Capital, the asset market size in Pakistan is \$700 billion, and the highest share of that is in real estate. He estimates that if one million people are living in houses built on areas of 500 square yards for each house, the total value of those assets comes to around \$300 billion.⁵ Yet another plausible estimate could be in the range of \$200-400 billion, i.e. 1.5-3 times Pakistan's GDP.

3 Robert Buckley. Housing's Role in Wealth and the Economy. World Bank

4 Focus group discussions

5 www.businessrecorder.com

Section 4

Key Constraints to Real Estate Markets in Pakistan

4.1 *Background*

22. The development of real estate markets in Pakistan has been constrained by a wide range of factors. The constraints, in many cases are a complex product of the old and new historical processes, and ways in which the economy has been handled since 1947. Such historic constraints, however, need to be distinguished from the reality of lower levels of economic development in the country than are generally prevalent in the more developed nations.

23. The constraints are interrelated, which makes it hard to tackle each in isolation. Each tends to feed off and reinforce the other, the resolution of which requires comprehensive policies. Overcoming them, thus, demands major changes in attitudes and behavior in our society, and wide-ranging action by the government to put in place necessary legislative measures and institutional reforms.

4.2 *Key Constraints*

24. As real estate markets impact widely on the rest of the economy, the consequences for the development of the economy are far-reaching, and, depending on the outcome, could be potentially severe, but also potentially beneficial to the wider economy. The constraints fall into five main groups and are summarized in Table 4.1.

4.2.1. Political and socio-economic framework

25. If we evaluate the policy of land administration in Pakistan in the wider political and economic context, we notice that the way land is currently administered remains firmly rooted in practices established during the colonial era. The British, from the outset, gave high priority to a centrally-controlled management system that was designed to maintain political control and secure a steady source of state finance. Relatively little has been changed in the post-independence era.

4.2.2. Legal framework

26. The legal structure in Pakistan has not kept pace with the changes that have taken place in the economy. This is also true of the laws and regulations governing real estate development and investment. Development of a proper transparent process of title

registration, for example, is critical to the growth of the sector. The need for evidence of a good title, indicating that the property is free from disputes, is essential for secure property transfers, and sales. Due to certain historical phenomenon, outdated legislation, and a plethora of inefficient systems, what we have today in Pakistan is mostly transaction registration, rather than title registration.

4.2.3. Governmental and administrative framework

27. Governments impact the real estate market in a number of ways, but must do so in a manner which does not inhibit real estate market activity and development. Table 4.2 below describes some of the consequences of government actions.

Table 4.1: Summary of Constraints to the Development of Real Estate Markets

Area of Constraint	Constraint	Consequence
1. Political and Socio-Economic Framework	-Legacies of distinct systems pre-independence and long lasting effects on the ground	- Multiplicity of tenure systems
	- Land owners (rural) lack knowledge and information about their rights, and their powers of management and transfer	-Landowners unaware of value of land, limited scope to mobilize value fetters and distorts market development
	-Suspicious about motives of state in privatizing land and in holding information about land -Suspicious about motives and behavior of tax authorities	- Fetters dealings, forces dealings into an informal market; actual transaction prices inaccessible to market
	- Prohibition or embargo on sale of government land	- No market or no market for a time. - Limited market activity, Foreign Direct Investment may be prohibited
2. Legal Framework	-Fundamental juridical misconceptions about titles and the powers of owners to transfer them	- Uncertainty for purchasers about nature of rights purchased and their legal ability to hold and therefore market them
	- Juridical registration law absent or ineffective, so land tenure not supported by state registration and/or guarantee	- Dealings in real estate markets though not prevented are often high risk, which hinders demand, and increases transaction costs
	-No workable mortgage law to securitize real estate	- Prospective borrowers unable to mobilize land-based capital - Lenders perceive high-risk and may not lend at economic rates
	-Weak leasing and bankruptcy law	- Market cannot operate to reallocate land which consequently may lie waste -Weak statutory basis for governing landowner/tenant relationships distorts market
	-Ill developed legislation and procedures for compulsory acquisition of real estate for public purposes and its associated compensation code	- Uncertainty/unfairness for owners of real estate, open market dealings may be blighted - Obstacles to development of essential public infrastructure

Area of Constraint	Constraint	Consequence
	<ul style="list-style-type: none"> -Inadequate provisions for enforcement of real estate contracts -Disputes in record and delays in court 	<ul style="list-style-type: none"> - Real estate may be perceived as high-risk investment, reduces demand -Nuisance of Pre-emption cases -High number of civil litigation in courts
3. Governmental and Administrative Framework	<ul style="list-style-type: none"> - Government constrained to implement adopted land reform policies by internal and/ or bureaucratic opposition and/or lack of understanding - Old era mind set exacerbated by low pay and poor prospects in public service 	<ul style="list-style-type: none"> - Real estate transactions are prevented, by deliberate/and or inability to interpret and implement law.
	<ul style="list-style-type: none"> -Institutional in-fighting about responsibility for real estate often stemming from a desire to access returns from real estate -Multiple institutions and dispersed responsibilities -Pakistan has not ratified the New York convention on international arbitration 	<ul style="list-style-type: none"> - Induces high costs and long delays in the development of registers to support dealings in the real estate market -System of recording land rights differs under the Land Revenue act and the Registration act. Thus separate records are kept and different rules followed -This is a major constraint for foreign investors
	<ul style="list-style-type: none"> - Bureaucracies perform real estate transactions at their own pace and price 	<ul style="list-style-type: none"> - Market is not transparent, transaction prices and costs are distorted and may be very high for the rural poor, in sum reducing incentive to deal
	<ul style="list-style-type: none"> - Urban authorities exercise high degree of continuing control over office, commercial, industrial, and retail real estate in towns and cities. This is a threat and opportunity for the development of the real estate market 	<ul style="list-style-type: none"> - Free market in real estate limited in towns and cities - Kiosk culture has flourished
	<ul style="list-style-type: none"> - Ill-conceived/developed tax system 	<ul style="list-style-type: none"> - Distorts real estate market, drives it into informal sector - Fails to realize potential of tax system to raise revenue from real estate
4. Land Record System	<ul style="list-style-type: none"> -Obsolete system of land revenue records -Inefficient revenue machinery 	<ul style="list-style-type: none"> -Cumbersome processes and dependence on the patwaris coupled with corruption leads to illegal annotation. -A number of officials intervene in a single transaction leading to increased backlogs and delays - Separate registries and cadastral offices frequently lead to problems with inconsistent and duplicated records.
4. Financial and Banking System	<ul style="list-style-type: none"> - Lack of accessible capital - Emerging banking and financial systems 	<ul style="list-style-type: none"> - Limited activity in real estate market - High interest rate; bankers expect the growth of mortgages to slow down significantly as a result.
5. Private-Sector Support Services	<ul style="list-style-type: none"> - Lack of legal, valuation, land brokering, and land management skills - Lack of or ill-developed 	<ul style="list-style-type: none"> - Dealers in real estate, lacking independent advice, have poor information about the market, and rely on advice and information by bureaucrats

Area of Constraint	Constraint	Consequence
	professional bodies able to influence government policy, set professional standards, accredit members and gain confidence of the public	- Lack of regulation, professionalism and consistency in real estate advisory services

28. Government itself needs to function efficiently in its dealing with real estate. At a basic level, this includes the avoidance of corruption and extortion.⁶ Real estate markets, therefore, require an environment of good governance in which to thrive.

Table 4.2: Consequences of Government Action for Real Estate

Government Action	Examples of Potential Consequences for Real Estate Markets
1. The legal basis for ownership and occupation of the property	Complicated property laws, which are not understood by the average person, act as a barrier to land, particularly for the poor.
2. Providing an accessible means of dispute resolution	If access to the courts is time consuming and expensive, the effect will be that only the rich and powerful can use the system. The accessibility and affordability of dispute resolution is particularly important in relation to property. Many disputes relating to land concern comparatively simple matters of fact that can be best settled with immediate and local knowledge.
3. Providing institutions to facilitate and guarantee transfers of interests in property	Registration processes are often too slow, inaccessible or expensive for ready public use. Property may then be held outside the legal system with adverse consequences for the property market and the general economy.
4. Control and regulate the development and usage of land and property for the public good	The systems of physical planning and building controls, to protect its citizens and the environment, always contain potential for excessive bureaucratic delays and corruption.
5. Managing the lands and property held in the public sector estate for public purposes (operational land)	The public sector is always the biggest single owner and occupier of land and property and the manner in which this large asset is managed affects the general property market. Inefficient and unaccountable management of the operational sector of the public sector estate results in inefficient use and sometimes complete disuse.
6. Taxation	The tax system impinges on property in many ways and effects can occasionally facilitate the market. More commonly, the effects are and should be neutral, but harm can result; e.g. taxes on the transfer of property (sometimes stamp duty) are very cheap to administer with a very low cost/yield ratio. It becomes a tempting political target from which it appears that money can be raised with little electoral risk. If the tax is above a minimal level, there is worldwide evidence that it encourages the transfer of property outside the registration system and sometimes completely outside the legal system. Even where property transfers are registered, there can be strong discouragement to stating the true value.

4.2.4. Financial and banking system

29. The development of viable and sustainable real estate markets requires the development of efficient financial markets, including the development of stable banking and financial services systems. These, in turn, require the development of commercial legal systems, particularly dealing with financial reporting, bankruptcy, the **enforcement of debts**

⁶ Paul Van Der Molen and Arbind Tuladhar, Corruption and Land Administration

and contracts and mortgages. Most housing finance companies cater mainly to individuals in the higher income group, who have reasonably assured credit worthiness. Only a small percentage of the loans disbursed by these housing finance companies go to builders and institutional developers. The high default rate among the developers is one of the factors dissuading housing finance companies from investing in this sector. The legal recovery mechanism is time consuming. Lack of a code of conduct for the industry is the other factor that keeps investors away. All this leads to builders and developers approaching private sources of finance at high interest rates, which ultimately leads to higher real estate prices.⁷

4.2.5. Private sector support services

30. Participants in real estate markets require access to real estate professional services, such as valuation, investment advice, and property management. Although the property dealer profession has thrived in the past decade or so, there exists the need for competent professionals that can be relied upon by all parties. Ways must be found of enforcing adherence to technical, educational, and ethical professional standards, through the setting up of licenses or self-regulation by a credible professional body.

7 Focus group discussions

Section 5

Legislative Issues Concerning Real Estate

31. The development of clear and verifiable property rights is the cornerstone of the development of efficient urban land markets. Among the wide and complex variety of property rights existing in advanced industrial economies, real estate property rights are the most ancient form of rights. Property rights play a central role in sound, efficient and modern urban planning, by lowering the need for costly state interventions.

Box 1: Land Rights in Developing Countries

Land property rights remain poorly defined in many developing and transition economies. This situation often stems from lack of developed land cadastres—the systems that record physical characteristics and identify boundaries—and of registration systems that record legal ownership of land. Another source is failure to unify these systems, which results in conflicting records. These problems are sometimes exacerbated by the transfer of responsibility for registration systems from central to sub-national authorities. In a situation typical of much of Africa, less than 4 percent of the land in Mozambique has been surveyed, and even less registered. Even where property is registered, investors may still face big delays in recording land transactions. In Nigeria an entrepreneur seeking to buy property free of dispute and officially recorded must complete 21 procedures—a process that takes a staggering 274 days and requires official fees amounting to 27 percent of the property value. In Norway the same process takes only a day and requires payment only of a registration fee and 2.5 percent of the property value in stamp duty.

Source (World Bank, 2004)

32. Most of the laws governing various aspects of real estate in Pakistan date back to the 19th century. Despite the plethora of laws, the situation appears to be far from satisfactory and major amendments to existing laws are required to make them relevant to modern-day requirements. The main laws governing real estate are discussed in subsequent sections.

5.1 Registration Act, 1908

33. The purpose of this Act is the conservation of evidence, assurances, title, and publication of documents and prevention of fraud. It details the formalities for registering an instrument. Instruments which it is mandatory to register include:

1. Instruments of gift of immovable property;
2. (b) Other non-testamentary instruments which purport or operate to create, declare, assign, limit or extinguish, whether in the present or in the future, any right, title or interest, whether vested or contingent, to or in immovable property;

3. Non-testamentary instruments which acknowledge the receipt or payment of any consideration on account of instruments mentioned above; and
4. Leases of immovable property from year to year, or for any term exceeding one year, or reserving a yearly rent.

34. The high cost and differing rates of registration discourage people from registering properties. In Karachi, for example, the cost for registration of a 400 square yard house in Clifton comes to Rs.123,200 compared with registration of a similar house in Gulshan-e-Iqbal which costs Rs.61,600. There are 24 sub-registrars in Karachi but, due to lack of staff, registration of sale deeds takes about a month.⁸ There is no proper office building for the registration department to provide one window facility to the public. Land registration is an absolutely necessary first step to mobilize the locked-up resources in land. Some of the benefits of land registration are listed below.

5.1.1. Security of ownership and tenure rights

35. This is the most important impact. It reduces the amount of land disputes which is a major issue in Pakistan. The security of ownership also stimulates land development. Land registration provides landownership security and develops land sales and rental markets. With security of land tenure guaranteed, the landowner can lease out part or all of his/her land and move out of agriculture in search of better opportunities, either in terms of jobs or self-employment. The landowners will not be concerned about possibilities of losing their ownership rights since they are guaranteed by the land registry. They will also find it easier to get renters as land registration improves the rental market. Alternatively, the landowners could sell part or all their land to take advantage of better opportunities elsewhere with full knowledge and confidence that, if they wanted land in future, they could re-enter the market and buy. The existence of efficient land markets created by land registration enables them to easily sell, lease, or buy land whenever they wish. The ease with which people can buy, lease or sell land creates a favorable environment for mobility of labor from areas of low labor productivity (with low economic returns) to those with higher productivity, thereby, raising overall labor productivity, efficiency of investment and economic growth.

5.1.2. More efficient land transfers

36. The cost of delays for permits is a serious constraint in most developing countries, and an efficient registration system makes transfers easier, less expensive and more secure. Not only does this reduce land transaction costs but it also speeds up the process of land acquisition for investors and removes landownership uncertainty, thereby, providing a considerable investment incentive. The speedy and smooth land transactions help also to increase the transferability of land from less efficient to more efficient users, thereby, enhancing the overall allocation of land resources.

5.1.3. Security of credit

37. The land title can be used as collateral for loans. This security has a positive impact on the productivity of the land since it enables the release of major financial resources for investment in the land.

⁸ www.dailytimes.com

5.1.4. Public control of land markets and intervention

38. Policies such as land redistribution are difficult to implement without a functioning land registration system.

5.1.5. Support for the land taxation system

39. The expenses for improving the registration system would, in fact, quickly be covered by increased property tax revenues.

5.1.6. Improved land use and management

40. This can directly provide better information on land ownership and rights for physical planning as well as facilitate the development of other planning tools such as information banks covering land use, land values, population, etc. It can also provide a tool to restrict certain land uses with a negative environmental impact. A major impediment relating to the housing sector is the problem of fraud in property documents, particularly for documents that relate to the city government. Banks are wary of advancing loans on the basis of current title documents. This cuts off a substantial portion of the city's real estate. In Karachi, 10,000 files went missing from the record room of the defunct KDA, which was said to be a common practice, through which ownership was changed after adding new papers to the files. Work on an inventory has now begun, but, owing to its complex and tedious nature, it will take a long time to be completed.⁹

It is necessary to improve the institutional arrangements and strengthen the technical skills of staff. It may also be worthwhile to consider introducing some incentives for individuals to register their land. The incentives may include, for example, inexpensive registration fees, introduction of grace periods from property taxation and legal assistance to low-income groups.

5.2 **Land Acquisition Act, 1894**

41. This Act authorizes governments to acquire land for public purposes such as planned development, provisions for town or rural planning, provision for residential purposes to the poor or landless and for carrying out any education, housing or health scheme of the Government. In its present form, the Act hinders speedy acquisition of land at reasonable prices, resulting in cost overruns.

42. The Defense Housing Authority Ordinance 1999 also authorizes the authority to acquire land ostensibly for a 'public purpose', within the meaning of the Land Acquisition Act, 1894. This creates unfair competition in the market, with the authority receiving a subsidy from the State, allowing it to secure land effectively. The allocation process for receiving and selling also lacks transparency.

43. Although the Land Acquisition Act prescribes the market value as the principle of determining compensation, in practice it is based on the registered value of transactions. These are known to be less than the real market price due to the prevalence of a parallel economy in the land and real estate market, particularly in the urban areas. Attempts of acquisition almost invariably get embroiled in long drawn-out litigation.

9 www.jang-group.com.pk

5.2.1 Urban land monopoly

44. Many cities have development agencies like the DHA, and the KDA which have control of all urban land within the municipal jurisdiction to them in the belief that they would act in the interests of the public. However, such agencies tend to behave like monopolies. It is in the interests of the monopolist to restrict the development and sale of new land and keep prices high, so as to maximize its own returns. Introduction of a competitive construction boom requires abolishing the monopoly of such agencies over urban land by completely separating control of land from its development.

45. There is a huge opportunity for leveraging the large portfolios of unutilized and underutilized real estate assets of various government agencies. A conscious effort on the part of these agencies, coupled with policy initiatives, can unlock the value of these non-performing assets. Revenues generated from such initiatives can be utilized for the development of infrastructure.

46. During British rule, official bungalows were built in exclusive civil lines for government officials. This practice was perpetuated after Independence and a large volume of government housing for functionaries, ranging from ministers and legislators to all classes of employees, involving huge public expenditure, was developed during the past 50 years. In other democracies, such as the United States and United Kingdom, there is usually an official residence for the elected chief executive and all other officials live in owned or rented houses. Many economists have proposed that all government housing including those in the GOR bungalows zone in Lahore should be handed over to the private sector and the resources generated be invested for productive purposes.¹⁰

47. Land markets, which allow access to land and buildings through secure property rights, at transparent prices, and with efficient permitting processes and land tax systems, are essential to a good business environment. Business surveys identify problems in gaining access to land as among the biggest complaints. A detailed study in India shows that such problems, by constraining investment and competition, can cost developing countries more than one percentage point of GDP growth annually.¹¹

5.3 Rent Control Act, 1959

48. There are four main laws dealing with rent restrictions. They are as follows:

1. The Islamabad Rent Restriction Ordinance, 2001 (for the Federal Capital);
2. The Punjab/NWFP/Baluchistan Rent Restriction Ordinance, 1959 (regulates tenancies in these three provinces);
3. Sindh Rented Premises Ordinance, 1979 (regulates tenancies in this province); and
4. Cantonments Rent Restriction Act, 1963 (regulates tenancies in these areas, which are declared as cantonment areas by the Federal Government through notification in the official gazette and in which any part of the armed forces of Pakistan is quartered or where defense installations or defense production units are located or which, being in the vicinity of any such place or places, are required for the service of such forces).¹²

10 Dr. Nadeem ul Haque: PIDE lecture

11 McKinsey Global Institute 2001

12 www.punjablaws.gov.pk

5.3.1 Rent legislation background

49. Rent legislation in Pakistan has been in existence since before partition. Rent control by the government initially came as a temporary measure to protect the exploitation of tenants by landlords after the Second World War. However, these rent control acts became almost a permanent feature. Rent legislation provides payment of fair rent to landlords and protection of tenants against eviction. Besides, it effectively allows the tenant to alienate rented property. Tenants occupying properties since 1947 continue to pay rents fixed then, regardless of inflation and the realty boom.¹³ Some of the adverse impacts of the Rent Control Act are:

- Negative effect on investment in housing for rental purposes;
- Withdrawal of existing housing stock from the rental market;
- Accelerated deterioration of the physical condition of the housing stock;
- Stagnation of municipal property tax revenue, as it is based on the rent;
- Resultant deterioration in the provision of civic services; and
- Increase in litigation between landlords and tenants.

5.3.2 Outcomes of rent control

50. **The Rent Control Act**, in fact, is the single most important reason for the proliferation of slums in Pakistan by creating a serious shortage of affordable housing for the low income families. Low- and middle-income families typically live in rented accommodation all over the world and the need for such accommodation in our cities will only increase as the economy modernizes, labor mobility increases and urbanization takes place. It is, therefore, necessary to increase the stock of rental housing. **Promotion of rental housing can have a significant impact on the economy in many ways**, such as:

- It reduces shortage of housing for a large section of the population who cannot afford ownership;
- Housing construction being a labor-intensive activity, investment in housing generates employment for both skilled and unskilled labor;
- Housing has backward and forward linkages with many other industries;
- Rental housing helps in stabilizing real estate prices and checking speculation, thus making housing affordable for the weaker sections; and
- It helps check proliferation of slums.

51. In the absence of rent control, dilapidated urban housing would be periodically pulled down and replaced by modern apartment buildings and other complexes leading to more rational use of prime locations and also creating a continuous process of urban renewal. This has not happened in Pakistan because rent control combined with security of tenure provides no incentive for house owners to undertake renovation work. This explains the run-down appearance of many of our buildings in prime locations, which gives our cities a much more shabby appearance than their counterparts in other developing countries. Repeal of the Rent Control Act could unleash a construction boom as has happened in many major cities all over the world. This is not only necessary to meet the growing unmet demand for housing but it would also have a highly favorable effect on employment generation.

13 www.dailytimes.com

5.4 Taxes and Stamp Duty

5.4.1 Stamp duty: The Stamps Act, 1899.

52. There is a direct link between the Registration Act and the Stamp Act. Stamp duty needs to be paid on all documents which are registered and the rate varies within the provinces. Some provinces even have double stamp incidence, first on land and then on its development. In contrast, the maximum rate levied in most developed markets is in the range of 1-2 percent. In Karachi, stamp duty is 3 percent of the property price.¹⁴ Most of the methods to avoid registration are basically to avoid payment of high stamp duty.

53. Another undesirable effect of high stamp duty rates is the understatement of the proceeds of a sale. This is also linked to payment of income tax and capital gains tax. When registration has not been recorded, a transfer is not deemed to have taken place and, hence, capital gains tax can be totally avoided. Thus, the present provisions in various laws and their poor implementation have led to a situation where there is considerable financial loss to the exchequer on account of understatement of sale proceeds, non-registration and, consequent, non-payment of stamp duty and avoidance of capital gains tax.

5.4.2 Property tax

54. Property tax is a levy charged by the municipal authorities for the upkeep of basic civic services in the city. In Pakistan, it is the owners of property who are liable for the payment of municipal taxes whereas, in countries like the United Kingdom, the occupier is liable.¹⁵ Generally, the property tax is levied on the basis of reasonable rent at which the property might be let from year to year. The reasonable rent can be actual rent if it is found to be fair and reasonable. The rental value system has its own disadvantages. There is lot of discretion with the assessing officer. There is no buoyancy of revenues because of the restrictions imposed by the Rent Control Act. As a result, the ratable value of the properties increases only on account of alterations to or extension of the existing properties or on account of construction of new properties. As a result of the Rent Control Act, the income of the municipal corporations has become static.¹⁶ We recommend an alternative method of levying of property tax which de-links it from rent. Based on research, a capital value-based system of taxation would be appropriate.¹⁷

55. The advantages of this system are:

1. It results in revenue buoyancy, i.e., tax revenue can keep pace with inflation and cost of living since capital value can be revised after five years based on the market value of the residential properties;
2. The system is transparent and simple;
3. It is objective and eliminates/reduces the element of discretion; and
4. It provides equitable assessment among different property owners

56. An examination of the provisions of these Acts reveals a number of inadequacies. Most of the sale transactions are done through the power of attorney route to evade transaction costs such as registration, stamp duties and property tax. The system, as it exists, imposes a responsibility on the part of the purchaser with regard to the inspection of the title. The result is tenuous titles to land and non-transparency in property transactions, thereby, hampering large-scale real estate development

14 Focus group discussions

15 ESCAP. Municipal Land Management in Asia: A Comparative Study. CITYNET

16 *ibid*

17 The Municipal Corporation of Mumbai commissioned the Tata Institute of Social Sciences to undertake a study to recommend an alternate system for levy of property tax.

Section 6

Land Record System in Pakistan

57. While a common record of property rights and transactions does not exist presently in Pakistan, most of the basic information is already available in the local and district revenue offices. The key missing element here is the lack of a general property system that could allow continuous updates and modifications and land changes in functions and users. The second key missing element is a reliable link between land and proper titles. It is a positive step taken by the government to begin efforts to computerize the land records in pilot projects in Punjab and Sindh. Studies of similar programs in Peru, Thailand and Vietnam show big increases in investment and productivity on titled land compared with land without title.¹⁸

Box 2: Land Record System in Pakistan

Our present land record system is not too far removed from the system in place during King Akbar's time. There are approximately 190 million land records, purportedly containing the details of approximately 50 million landowners in Pakistan. These records are all in manual form. In urban areas, if a property is situated in a housing society such as Defense Housing Authority Karachi or Model Town Lahore, then the land records pertaining to that property will be in the custody of that society. However, in other cases, authority and maintenance of land records falls under the general purview of the Board of Revenue (BOR). The most junior official in the BOR is the Patwari (village accountant) who is generally a Grade-5 officer. Inexplicably, the original land records of a particular area are in the custody of the Patwaris, who are also the sole custodians of the records of government lands. There are nearly 14,000 Patwaris in Pakistan, each of whom is assigned responsibility over the original records of a particular area or between two to eight revenue estates. A revenue estate may be a single large village or two to three small villages. A Patwari is required to keep the original land records with him at all times and has the authority to make changes relating to ownership, use and taxation in the original record.

Land records are not simply static details of who owns what. The Patwari has 17 massive registers in his possession, kept in a cloth bag called a Basta. One register, for instance, contains details of present landownings; in another, the Patwari records sales and transfers of land. But there is also a register containing details of crops grown on lands and a register of tenancies. There is also the infamous Lal Kitaab or 'Red Book' in which the Patwari records unusual happenings on a particular property or area, such as an outbreak of bird flu, disease or death of cows, etc. There is also a register containing the family tree of the landowner in order to ascertain who the property will pass to in the event of his death. All these registers are cross-linked and are quite scientific in theory. In practice, however, the system is a mess.

Source: Blue Chip Magazine, Islamabad, August 2004, Vol 1, Issue 3: as used in Computerization of Land Records in Pakistan, Muhammed Usman Qazi.

¹⁸ World Bank 2004: For example, in Peru the formalization of land rights increased the supply of labor to the market by more than 50 percent.

58. In an increasingly complex society with an abundance of data and information, there are many reasons for developing a system to attain and combine information on land in a systematic, rational and efficient manner.¹⁹ There are now considerable efforts being made by the government to computerize land records and pilot projects are underway in Sindh and Punjab, which should be replicated nationally. With the advances in information technology, it is becoming increasingly cheaper to develop and maintain land information systems.

19 Bradford Case and Susan Wacter. Residential Real Estate Price Indices as Financial Soundness Indicators: Methodological Issues

Section 7

Real Estate and the Financial Sector

59. Underlying the provision of real estate services, in general, and housing services, in particular, lays the importance of a well-functioning financial system. Without an efficiently organized finance system, the capital value held in the real estate market would be grossly under-utilized. The real estate and housing finance system has beneficial spillover effects on the entire financial system with far-reaching consequences for economic development. For example, a mortgage market is very important for the process of capital accumulation in a developing economy. Real estate finance and, particularly, housing finance are vital elements both in the development of a dynamic housing and construction sector, as well as in the development and deepening of the financial sector. In addition to creation of more lending channels, more investment channels are opened up for both institutional and individual investors, thus, leading to more complete and efficient markets.

7.1. Real estate prices and risks for the banking sector

60. Bank lending is one of main sources of real estate funding, and there exist close connections between real estate prices and bank credit.²⁰ Movements in real estate prices can have a substantial impact on banking performance. In particular, falling property prices may lead the banking sector into distress via various channels, examples of which are:

- Increases in bad loan expenses in real estate loans. Declines in real estate prices imply a lower return in the property industry, and, hence, real estate loans are more likely to default. This reduces the profitability of bank lending, and increases the bank's bad debt expenses as well.
- Deterioration in the financial conditions of borrowers and banks themselves. Because real estate assets are also widely used as collateral for other types of loans, fluctuations in property prices has a broad impact on the banking industry. When real estate prices fall, a typical borrower is more likely to face financial constraints in the form of reduced borrowing capacity. These constraints restrict the scale of new investment and reduce the profitability of corporate firms. As a result, the credit risk exposure of other types of bank loans increases as well, exacerbating the fragility of the banking sector.
- Contraction in financial transactions and overall economic activity.

61. The relationship between the strength of the real estate market and the health of a country's financial sector can be most dramatically illustrated by looking at the behavior of real

20 The State Bank of Pakistan in its third quarterly review says that 50% of the total increase in outstanding advances during July to December FY 06 was extended against real estate as collateral." A continuation of this trend would not be a welcome development as a high level of concentration in collaterals would prove detrimental for bank's soundness at the time of financial distress," warns SBP.

estate markets in times of banking and economic crisis. The United Kingdom's banking crisis of 1974 and the more recent economic crisis in South East Asia both reveal that the economies were affected by conditions in the real estate market and its relationship with financial institutions.²¹

62. The banking system can become over-exposed to the real estate market. Recession in the property market can result in banks being faced with non-performing loans secured against depreciated assets, which can result in crisis both for individual financial institutions, and, on occasion, for the banking system, as a whole. This points to a need for regulation of the relationship between the real estate and financial sectors.

Box 3: The Real Estate Boom

On 11th September 2001, the KSE-100 Index was trading at 1,255 points. The most recent reading is a nearly five-fold increase. The property market really does not have an index but if there were one, the price increase would probably be comparable (a five-fold increase). In 1999-00, Pakistan had foreign exchange reserves of \$1.967 billion. As of October 2004, our reserve position stood at \$12.271 billion. Intriguingly, the increase in our foreign exchange reserves has been a little more than six-fold in about four years. The economy went through a period of extraordinary accumulation of foreign exchange reserves. Almost every country that accumulated foreign exchange at a brisk pace experiences asset inflation or a rapid increase in the monetary value of assets (property and stocks).

The land prices tripled over a period of three years, and there was even further increase when investors, owing to the lack of other investment choices held onto land purely as a speculative asset. These are the best of times. Many banks went into the house financing in a big way. Due to increased liquidity banks had money to lend but found returns on loans low. This was because the loans taken against the land, were being re-invested into the property market, and not going to legitimate households. There is evidence now that the market that banks were lowering credit standards and, in many cases, were willing to inflate the value of the collateral. The end result was that most properties in urban Pakistan went out of the reach of genuine buyers and speculators walked off with millions in the process. Land and property speculations of this nature were blamed for triggering the financial market crises in South-East Asia.

An indication of the kind of money floating about is the sale of a 2,800 square yard piece of land auctioned off by the Capital Development Authority (CDA) in Islamabad's Blue Area -- for a colossal Rs1.48 billion (Rs148 crore or \$9,000 per square yard of land). Despite there being a recent decline in land prices (about 20%), land prices in urban Pakistan are now at par with Mumbai and Delhi, which have the highest land prices in the world relative to income levels.

Independent experts were of the opinion that it was logical to tax the real estate sector, for two major reasons. First, there was great potential in the real estate business to help the government meet revenue targets, and, second, this move could go a long way in curbing speculations and extra-ordinary hikes in prices. Real estate is one of the favorite businesses for black-marketers to convert their black money into white. There is little checking and investors are not bound to pay any taxes while buying and selling property. The real estate sector came under scrutiny once again when the government, in a plan to regulate the sector, decided to discourage benami (anonymous) transactions in real estate, and made it mandatory for sellers and purchasers of real estate to obtain National Tax Number (NTN).

Above all, the Central Board of Revenue's (CBR) drive to inspect documents of agents working for overseas real estate developers also created panic in the real estate market. The tax authorities were seeking a precise record from the authorized agents of Dubai-based companies to identify investors, their sources of income, their status as tax payers and so on -a campaign that has created a stir in the real estate sector. The traffic, however, was not one-way. On one hand, billions of rupees were pouring into the country from abroad, through expatriate Pakistanis and, on the other hand, a huge amount of capital was flying out of the country to be invested in real estate in Dubai and other Gulf states. Pakistanis have diverted a lot of the wealth earned from the real estate gains by investing heavily in Dubai's real estate sector mainly to earn residency rights in the Gulf, as promised by the developers, as well as make their investments secure in an economy free of political influences and uncertainties. Even though the government authorities in Dubai had not yet endorsed the claim of allowing residency rights to those investing in the real estate there, this led to a capital flight of unknown proportions.

Source: Various Newspaper Articles, and Focus Group Discussions.

21 en.wikipedia.org/wiki/realestatebubble.htm

Section 8

Housing

63. *“Failure to settle the problems of land distribution and housing in the world’s cities threatens not only...the developing world - it also threatens world stability”* - Charles Abrams²²

8.1 Housing’s Role in Wealth Formation

64. While the commercial real estate sector may be a manifestation of derived demand, dependant on how well the industrial and services sector are doing or are expected to do in the future, the housing sector is driven by a number of extra-economic and demographic factors, in addition to the economic ones such as income and the interest rate environment. The housing sector plays a major role in economic growth and stabilization through the creation of jobs in construction and materials and demand for financial services. The housing and construction industry has the potential of absorbing a large number of skilled and unskilled workforce, significantly mitigating unemployment and, thereby, reducing poverty in the country. This attribute of housing, coupled with its size and its multiplier effect on the economy, gives it the role of a leading indicator of the imminent state of health of the economy at large. Table 8.1 shows the value of housing assets relative to real assets in the developed countries.

65. Housing construction activity and productivity has been rising in Pakistan in recent years from very low levels. However, the housing sector in Pakistan is still in its infancy when compared with other developing and developed countries. At 1% of the GDP, however, there’s tremendous potential for growth, given a relatively stable and growing economy, a rapidly increasing population, unmet housing demand, and a growing awareness of housing finance options.²³ Nevertheless, there remain serious issues in the housing sector value chain and land market that require attention, because the very high land prices, high and rising real interest rates and prices of construction materials threaten the growth achieved.

Table 8.1: Housing Assets Relative to Real Assets in 1998 (in percentages)

Australia	82
Canada	79
France	82
Germany	52
Italy	70
Japan	19
United Kingdom	83
United States	72

Source: World Bank

22 Charles Abrams, “Housing in the modern world, man’s struggle for shelter in an urbanizing world”

23 FIAS, Improving the Performance of the Housing, Tourism, and Retail Sectors: Pakistan; World Bank

8.1.1. Social impact of housing

66. The purported benefits of housing and of homeownership, in particular, have been stressed in theoretical and empirical literature on housing. The social value creation by housing, such as social stability, functional neighborhoods, development of civil society, abatement of crime, and general enhancement of welfare, have been well recognized.²⁴ This is particularly true of provision of affordable housing for the poor, in addition to the widely-acclaimed objectives of equity and social justice. "Homeowners accumulate wealth as the investment in their homes grows, enjoy better living conditions, are often more involved in their communities and have children who tend, on average, to do better in school and are less likely to become involved with crime.

67. Communities benefit from the real estate taxes that homeowners pay and from stable neighborhoods that homeowners create. Homeownership creates neighborhoods with a collective sense of identity through the development of stake-holding that is linked in terms of its value to the dynamics of the neighborhood at large.²⁵ By this we do not just mean value in the monetary sense, but also in terms of the quality of life in the immediate neighborhood of the primary residence. Indeed, some go so far as to raise the question whether homeowners make better citizens (DiPasquale and Glaeser, 1999). Although the ownership rate in Pakistan is high, (i.e., owned homes as a proportion of total dwellings) the quality of a large segment of dwellings leaves much to be desired and many of the externalities of housing are thus not captured.

8.2 **Housing Delivery Mechanisms**

68. The process of producing housing involves a large number of actors. The government through its various institutions coordinates the functioning of these actors by supporting or regulating these activities. These actors include:

- Land owners (the government being one of them) on whose properties housing is built;
- Manufacturers and suppliers of building materials;
- Developers who develop and sell property;
- Contractors who build housing for individuals, government, and communities;
- Banks and financial institutions, both formal and informal, who fund individuals, governments and contractors in the housing process; and
- Architects, engineers, and skilled and unskilled labor.

8.3 **The Government's Role**

69. For coordinating and regulating all these actors, the government frames a number of rules and regulations, and provides a number of initiatives that are contained in its annual budgets and national housing plans. During the recent years, successive governments did display awareness of the issues pertaining to housing problems in Pakistan. Various steps were initiated in the form of policy decisions including plans and program for solving the urban development and housing problems of the ever-growing population in Pakistan. In August 1987, the National Housing Authority was set up with the then Prime Minister as the Chairperson of its Board of Governors. The Authority was assigned the task to prepare short-

24 Denise Di Pasquale and Ed Glaeser. Incentives and Social Capital: Are Homeowners Better Citizens. (1999)

25 U.S. Department of Housing and Urban Development 2000

term and long-term plans and programs for development of housing for low-income groups in the country.

70. A national housing policy was charted which covered all relevant aspects of housing, including provision of land financing, construction technology, building materials, low income housing research, institutional framework and implementation mechanism. The present initiatives in the housing sector are based on the 2001 policy.²⁶ The major emphasis of the country's housing policy is on resource mobilization, land availability, incentives for home ownership, incentives to developers and constructors and promotion of research and development activities to make construction cost effective.

Box 4: Some features of the 2001 policy are:

- Stamp duties/ registration fees to be rationalized by the governments of Punjab and Sindh.
- Duties on construction machinery, ship-building scrap and coal-fired cement plants reduced.
- The provincial governments asked to identify shamlat deh lands which could be transferred to individuals and families residing on them. A committee constituted by the Ministry of Housing and Works, including representatives from provincial governments, architects and Ministry of Environment, Local Government and Rural Development, were to submit recommendations on the issue.
- The State Bank allowed Housing Finance Institutions (HFIs) to float long-term bonds for housing finance.
- The State Bank issued revised instructions to commercial banks allowing them to provide mortgage financing for construction of houses to the extent of Rs. 5 million for a maximum period of 15 years. The HBFC authorized to undertake activities for raising funds through commercial papers, redeemable capital, TFCs, etc.
- The State Bank conveyed no objection to the promotion of Housing Finance Institutions to encourage savings and provide credit from community-based finance and other sources. Further, the banks/HBFC advised to devise procedure for the same.
- The State Bank also conveyed its no objection to increase in the annual disbursement of HBFC loans from the present Rs. 1.2 billion to Rs. 7 billion over the next 5 years, provided the HBFC was able to raise resources enabling it to disburse the amount to the extent of desired level without any credit line from the State Bank.
- The State Bank conveyed its no objection to the reintroduction of bridge financing and bulk financing of housing projects, together with appropriate safeguards by the HBFC subject to the condition that the corporation was able to raise resources enabling it to disburse the amount to the extent of desired level without any credit line from State Bank.
- Housing entitled to concessionary rate of 10 per cent import duty on machinery not manufactured in Pakistan, as a category 'C' priority industry.
- The Ministry of Housing and Works in coordination with the provincial governments to develop a package for improving the living conditions in katchi abadis and slums. The dangerously located slums to be shifted to alternate locations on state land within the cities in a smooth and organized manner. For this purpose low-cost housing schemes may be developed. The master plans under the housing policy may be prepared for the metropolitan and major cities by the provincial governments within three years and development plans for district level cities/towns and union councils be prepared by the local governments and union councils within two years.

Source: National Housing Policy 2001

71. The National Housing Policy 2001 has encountered major implementation and institutional bottlenecks. Its main achievements are regularization of katchi abadis, some provisions for low income housing, particularly for the government employees, development of new towns, e.g. Support City, Lake City, etc., and also some rationalization of taxes. Provinces have resisted the federal government interventions in this area because it is a provincial subject. At the same time, they have not been able to implement the Policy provisions

²⁶ National Housing Policy 2001

because of weak capacities and finances for infrastructure development particularly in TMAs/city governments. The Policy provisions relating to finance have not been implemented altogether. Rather the SBP's monetary policy provisions relating to interest rates and prudential regulation have hindered bank lending for housing development. Hence urban plot prices and house construction costs have remained very high.

8.4 Housing Background

72. The housing crisis in Pakistan began after a hard-won freedom, and the ensuing flow of refugees into the territories that became Pakistan. The government of Pakistan adopted the welfare-state model as its development policy at the time of independence. According to this model, the State undertook to provide housing and shelter to its citizens. Projects were launched in many cities of the country to provide basic housing (one or two rooms, toilet and kitchen) for low-income groups and government employees. The largest housing initiatives were in Karachi where, through the Greater Karachi Resettlement Plan of 1958, the government aimed at providing 500,000 housing units in 15-20 years, the majority of them for low-income groups. However, by 1964 the State could only build 10,000 of these units in Karachi due to a lack of funds and management expertise.²⁷ Moreover, the beneficiaries of these schemes had to pay for the houses in small installments over different periods for different schemes, which resulted in erratic payments that very often simply did not materialize. The housing schemes in other cities faced similar fates and were discontinued.

73. After independence, the government also supported the process of creating housing cooperatives societies by providing state land at low prices to the societies. Many of these societies comprised of government employees and officers of the armed forces. However, the members of these societies invariably belonged to the higher- and middle-income groups and, as such, these initiatives have failed to provide housing to the working classes or to the rural poor.

8.4.1 Urban Population Explosion and its Repercussions

74. In the fifties and sixties, Pakistan adopted green revolution technologies in the agricultural sector and also opted for large-scale industrialization. As a result of these two factors, there was massive rural-urban migration. The urban growth rate increased to 4.8 percent during 1951-1961 and 4.8 percent during 1961-1971. As a result, 10.58 million people were added to the urban areas of Pakistan in a period of 20 years.²⁸ The example of migration to urban centers include that of the capital city Islamabad, where during the period, 1981-1998, around 58 per cent of people in Islamabad came from outside the city. In Karachi, more than 38 per cent of the increase in the population in the period 1981-1998 was estimated to have been because of the migration. Lahore and Peshawar had similar situations. The proportion of migrants from other provinces is significant in Sindh while, in Punjab and NWFP, shifting to urban areas takes place mostly from within the province. According to the 1998 Census, the largest number of internal migrants originates from Punjab, followed by NWFP. In Karachi, more than 38 per cent of the immigrants are from Punjab, 29 per cent are from NWFP, while 24 per cent are from the other areas of the same province. In Lahore, Faisalabad, Gujranwala and Multan, nearly 86 to 91 per cent of settlers are from different parts of Punjab itself. However, in Hyderabad up to 84 per cent of the internal migrants come from Sindh.²⁹ The vast majority of these belong to the lower-income group. The scale of the problem was far too large for the State to manage through the social welfare concept and so instead of building houses, the state decided to adopt the site-and-services concept.

27 Hasan, A., *Housing for the Poor*, Karachi, City Press 2000.

28 Government of Pakistan, *Population Census Reports*

29 www.jang-group.com.pk

8.4.2 The Site and Services Model

75. In the site-and-services concept, the State developed the physical infrastructure, while people bought the plots of land and built their houses themselves. The government introduced various schemes on this concept in all the major cities of Pakistan. A certain percentage of the plots were of a small size and ostensibly meant for poor families. Their costs were subsidized by the larger plots. However, these schemes also failed for a variety of reasons.

76. An important factor that worked against the site-and-services concept was speculation. Since the smaller plots were subsidized, they were, in many cases, well below market rates. Low-income families could not purchase them and, as such, they were purchased by middle-income groups and held for speculation. Many government schemes have suffered this fate, including a number of high-profile government initiatives, such as the 7 and 3 marla Prime Minister's scheme of 1987. It is estimated that 200,000 plots developed by the Karachi Development Authority in the late 1970s and 1980s were still lying un-built in the early 1990s. Most of them were held for speculative purposes.³⁰

Box 5: Karachi Development Authority's experience in the site-and services-scheme

In 1974, UNDP helped to design the Karachi Master Plan. A two-pronged approach was used to address the chronic problem of low-income housing in the city. Under the Plan, existing squatter settlements on government land were to be upgraded. Site-and-services schemes were to be developed for those whose settlements could not be upgraded. From 1974 to 1980, a total of 90,891 serviced plots were developed. However, as of 1988, only 701 plots were occupied. The main reasons for lack of occupation were speculation by middle-income groups, and the lag time from the time of payment by the owners to the time of delivery of plots, which, in some cases, was as long as four years. The very poor, in immediate need of shelter, clearly could not afford to wait that long and were forced sell their plots to middle-income households who already had shelter in the city and who could afford to wait and allow land prices to increase. In spite of this record, government-implemented sites and services programs continue to be the main policy of the Karachi Development Authority.

Scheme	Year initiated	Total plots	Plots occupied in 1988
Metroville I	1974	4,133	700
Shah Latif Town	1979	43,891	1
Deh Surjani Town	1980	47,000	0

Source: Aliani, Adnan, "The incremental development scheme," Masters thesis, Asian Institute of Technology, Bangkok, 1988.

8.5 Informal Settlement of Land

77. As a result of the failure of these policies to provide housing to low-income communities, katchi abadis developed all over urban Pakistan.³¹ Because of very high land prices and tenant laws, katchi abadis/slums are today the only alternative for the urban lower class, and migrants from rural areas. In 1988, there were 2322 katchi abadis in Pakistan; among them 56 percent were in Sindh. Nearly 35-40 percent population of Karachi and Lahore was residing in slum areas in the early 1990s.

78. These katchi abadis are, strictly speaking, illegal and established on government land by informal developers, supported by government officials who become partners in the

30 Urban Resource Center

31 Katchi abadis, literally meaning improvised settlements, are the neighborhoods or squatter camps of the poor. A katchi abadi dwelling consists of a makeshift mud or timber hut containing one or two rooms, usually built on land which has un-enforced ownership titles, and is seen by authorities as an illegal eyesore. Besides the usual low working class inhabitants, katchi abadis provide shelter to many white collar workers as well.

process.³² These abadis (settlements) are often un-serviced and people have to organize in them to lobby politicians and government institution for services. Where government land is not available, low-income communities acquire land in settlements that are created through the informal subdivision of agricultural land on the periphery of urban settlements. These settlements too are un-serviced but, unlike the katchi abadis, the residents have greater security of tenure. The Khuda-Ki-Basti model, popularized by Saiban, overcomes all these problems and, as such, needs to be promoted.

Box 6: Saiban

In 1991, Tasneem Siddiqui founded Saiban, a non-profit organization to continue the work of scaling and perfecting his incremental housing methodology. At the same time, he also reactivated the Sindh Katchi Abadis Authority (SKAA), a quasi-governmental agency to regularize and upgrade squatter settlements. SKAA was the “bridge” needed between Saiban and governmental authorities, making the approach sustainable. Saiban initiated and lobbied for the replication of the incremental housing schemes in other parts of the country. Saiban ensures that housing is offered to the poor at affordable rates and flexible payment schedules. Plots with minimal services are sold to poor families for a down payment. Subsequent payments are to be made over the next 6-8 years and are used to gradually develop remaining infrastructure. The application process is handled on-site and possession of the plot is given as soon as the down payment is made. The candidate’s family is required to move into a reception site for about two weeks. This practice filters out real-estate speculators and middle-income groups and allows the family to have a place to stay while construction begins. A family must start constructing a house as soon as it receives plot possession. Families must comply with these requirements to avoid the risk of having the allotment cancelled and the down payment forfeited. The house a family initially constructs can be a shack. The advantage to the residing family – in addition to affordable housing – is the security of tenure. The plots are legally sanctioned and families have no fear of eviction. By partnering with other non-profit social organizations, Saiban facilitates key social and economic services to the residents of the housing community, including education, health-care and credit facilities.

8.6 Housing Indicators

79. The state of housing in a country or city is judged by various indicators.³³ The most important indicator is the demand-supply gap. Demand is the number of housing units required as a result of an increase in population where this increase can be due to migration as well as natural population growth. Supply is the number of housing units that are provided through State-approved processes. The demand-supply gap is the difference between the two. If the gap is large, housing conditions are bound to be poor. Backlog is another indicator and means that the required number of housing units has not been built. Other indicators are rooms per house (the less the number of rooms, the worse the housing conditions) and the number of persons per room (the larger the number of dwellers, the poorer the housing conditions). Other indicators include the availability of water, sanitation, electricity, and the quality of construction, especially roofs.

8.6.1 The demand-supply gap

80. Pakistan requires about 575,000 housing units annually just to meet natural population growth requirements. Of this number of housing units, 250,000 are required in the urban sector.³⁴ Housing backlog figures differ extensively. The Government estimates the figure at 4.3 million, while some international evaluations place the figure at 7 million.³⁵ Even

32 Arif Zaidi. Issues in Pakistan’s Economy

33 Hasan A., Housing for the Poor: Failure of Formal Sector Strategies

34 Ibid

35 FIAS, Improving the Performance of the Housing, Tourism, and Retail Sectors: Pakistan; World Bank

according to the Government figures, the urban demand-supply gap is about 250,000 housing units. About 25 percent of this unmet demand is accommodated by the creation of katchi abadis; 60 percent through the informal subdivision of agricultural land; and 15 percent through densification of inner cities or existing cities.³⁶ The situation in Karachi and Faisalabad, both major industrial cities, is summarized in Box 7: The Housing Demand-Supply Gap in Karachi and Faisalabad.

Box 7: The Housing Demand-Supply Gap in Karachi and Faisalabad

Karachi is Pakistan's largest city and has a population of over 12 million. Its annual housing demand is 80,000 units. The Karachi Building Control Authority (KBCA), over the last five years, has issued an average of 26,700 building permits per year. The demand-supply gap is met by the creation of new katchi abadis which provide about 28,000 plots of land per year and encroaches on an average of 1,000 acres. The rest of the demand is met by densification in existing settlements or not met at all. Even where schemes are developed for the poor, they remain unoccupied for 10-20 years and are subsequently taken over by the middle classes.

Faisalabad is Pakistan's third largest city and a major industrial area. Between 1947 and 1998, its population has increased by about 1.9 million. A minimum of 200,000 housing units would be required for this population increase. However, for over 51 years, the government has been able to provide only 38,785 plots and houses, where Faisalabad requires 12,000 housing units per year. As a result of this demand-supply gap, katchi abadis have sprouted all over Faisalabad, where unlike Karachi; no more government land is available for expansion. Therefore, housing is being developed through Informal Subdivision of Agricultural Land (ISAL) on the city fringe. According to official estimates, 2,000 to 3,000 plots are developed every year through this process. Informal developers, however, claim that the figure is closer to 6,000.

Source: Urban Resource Center

8.7 Environmental Cost of Informal Settlements: Loss of Agricultural Land

81. Although the government has a program for katchi abadi improvement and regularization, it has no such program for informal settlements created out of the subdivision of agricultural land. These subdivisions are increasing at a far greater rate than the katchi abadis.³⁷ Compared with 1951, when only 17 percent of the population of Pakistan was living in the towns and cities, today the urbanites makes up 32 percent of the population in the country. There has been a great loss of fertile agricultural land on the peripheries of all major towns and cities, particularly in the more developed provinces. The National Conservation Strategy (NCS) in 1992 recorded: "Urban planners do not seem to realize that class I and II agriculture soils are scarce and practically nonrenewable resources. Thus, the structure plan for Lahore (1979) directs its growth over the best agriculture land. Similarly, many other Punjab, Sindh and Peshawar urban settlements are intruding on the conspicuously best agriculture lands because they are level and easy to develop."³⁸

82. "Although it is likely," the NCS added, "that the doubled urban population of the 67 million in the next 15 years will be accommodated on less than one million hectares (1.2% of the country's land area) where the increment occurs will make considerable difference to sustainable agriculture. Particularly important is whether it takes place on the 12.2 million hectares of class I and II agriculture land or on the 76 million hectares of less productive land." Urban settlements also have large areas of land at their outskirts that is kept vacant for speculative purposes, which a mid-term review of the NCS noted this bureaucratic failure "in sharper decline of population growth in the ecologically fragile areas, relatively more of

36 Hasan, A., Housing: Lessons from How the Urban Demand-Supply Gap is Met in Pakistan.

37 Urban Resource Center

38 The National Strategy Report 1992

incremental population retained in robust rural areas; relatively more rapid growth in selected medium-sized cities with investment opportunities". The implementation, based on the NCS, started in 1992.³⁹

83. The strategy aimed at planning the future development within the framework of conserving the environment. Unfortunately, the revenue departments lack details of fertile agriculture land lost to housing and industrial projects, and, despite a provision in department rules that bars the practice, fertile agricultural land has been allowed to be used for residential and industrial purposes. Recently, large real estate developers are creating housing estates on the periphery of urban centers have been made over for housing estates. Rather than develop existing vacant land within a city, they find it more profitable to develop new land along transport arteries in the peripheral areas of the city by converting agricultural land. This type of ribbon development puts greater pressure on natural resources and also increases the costs of disposing urban waste water and solid wastes. With greater commuting distances and lack of an adequate transport infrastructure it also increases air pollution.

8.8 Housing: Survey analysis

8.8.1 Housing Stock

84. A housing census was conducted in 1980 and, again, in 1998. The census shows major differences in the housing conditions of urban and rural areas, and also between housing conditions in different provinces of Pakistan. The data of population censuses reveal that total housing units has increased from 7.8 million in 1960 to 12.6 million in 1981 and further increased to 19.3 million in 1998. This means that 19.3 million housing units accommodate a population of 131.5 million in 1998. Table 8.2 shows that population growth remained higher than the growth in housing stock. Housing stock has increased by about 2.5 times, whereas population has increased three-fold during four decades. Urban population grew more rapidly (3.8%) than the urban housing stock (3.4) during 1981-1998.

Table 8.2: Population growth rates and housing units (1981-1998)

	Population (000)		Number of housing units (000)		Average household size	
	1981	1998	1981	1998	1981	1998
Pakistan	84253	132352 (2.86)	12588	19212 (2.68)	6.7	6.8
Urban	23841	43036 (3.76)	3554	6031 (3.36)	6.1	7
Rural	60412	89316 (2.47)	9034	13180 (2.39)	5.6	6.8

Source: Government of Pakistan (1981 and 1998).

Note: Figures in parenthesis are the compound growth rates from 1981 to 1998

85. Table 8.2 shows an increase of 53 percent in the housing stock from 1981 to 1998. In 1998, there were 69 percent houses in rural areas and 31 percent in urban areas in 1998. The number of housing units in urban areas has increased by about 70 percent between the two censuses, whereas rural housing units have increased by 50 percent.

8.8.2 Housing conditions

86. An increase in average household size indicates more people per housing unit in 1998 as compared with 1981. As seen in Table 8.3, this increase is more pronounced in the urban areas (from 6.1 to 7.0). This indicates increasing congestion in a household that is a result of higher population growth, especially in urban areas. Despite an increase in persons per housing unit, rooms per housing unit has increased slightly during 1981-1998 from 3.2 to 2.9

39 Midterm Review of the National Conservation Strategy

and 3.6 to 3.2, respectively, that caused a decline in persons per rooms. It therefore means that congestion has reduced.

Table 8.3: Indices of congestion in 1980 and 1998

Index	All areas		Rural		Urban	
	1981	1998	1981	1998	1981	1998
Persons per housing unit	5.7	6.2	6.6	6.8	6.1	7.0
Persons per room	3.5	3.2	3.6	3.2	3.2	2.9
Rooms per housing unit	1.9	2.2	1.8	2.1	2.2	2.4
Housing units with one Room (%)	51.54	42.58	55.06	41.65	42.58	30.38
Housing units with 2-4 rooms (%)	44.83	51.71	42.12	52.26	51.71	60.91
Housing units with 5 rooms and more (%)	3.63	5.72	2.82	6.10	5.72	8.71

Source: Government of Pakistan (1981, 1998).

87. The most dramatic change has taken place in electricity supply. Nearly 28 percent housing units have inside water and 70 percent are covered by electricity in 1998, as compared with 13 percent and 30 percent, respectively, in 1981. However, piped water in rural areas is available to only 13 percent households and 69 percent households in the rural areas have no latrines. Even in urban areas, only 51 percent households have latrines and 60 percent have piped water in their homes. These figures paint a dismal picture on the quality of housing conditions in Pakistan. These conditions are given in Table 8.4. The more urbanized provinces have better housing conditions and these are given in Tables 8.5 and 8.6

Table 8.4: Housing Conditions in Pakistan

Pakistan	Total		Rural		Urban	
	1980	1998	1980	1998	1980	1998
Physical Conditions						
No. of housing units	12,587,650	19,211,740	9,033,475	13,181,175	3,554,173	6,030,565
Rental housing (%)	7.73	8.64	2.16	2.22	21.87	22.66
Owned housing (%)	78.38	81.19	82.60	86.80	67.68	68.92
One room houses (%)	51.54	38.11	55.06	41.65	42.58	30.38
2-4 room houses (%)	10.78	15.97	9.63	14.54	13.68	19.11
Persons/ housing unit	6.7	6.8	6.6	6.8	7.0	7.0
Persons/ room	3.5	3.1	3.6	3.2	3.2	2.9
Electric connections (%)	30.58	70.46	14.66	60.07	71.04	93.14
Piped water in house (%)	12.62	28.08	2.53	13.37	38.26	60.22
Piper water outside house (%)	7.72	4.18	2.88	3.89	20.04	4.81
Water: rest from hand pumps, ponds, canals etc. (%)	79.65	67.74	94.59	82.74	41.70	34.97
Separate latrine (%)	-----	28.58	-----	18.46	65.53	50.68
Shared latrine with other housing unit (%)	-----	20.44	-----	12.29	9.37	38.26
No latrine (%)	-----	50.98	-----	69.25	27.10	11.06
RCC roofs (%)	8.55	21.39	1.50	10.43	26.49	45.35

Housing Census Report of Pakistan 1980, and the 1998 Census Report of Pakistan, Government of Pakistan

Table 8.5: Housing conditions in the provinces

Physical conditions	Total		Rural		Urban	
	1980	1998	1980	1998	1980	1998
N.W.F.P.						
No. of housing units	1,615,616	2,210,455	----	1,814,707	-----	368,748
Rental housing (%)	9.99	8.5	6.2	4.4	32.2	28.9
Owned housing (%)	75.09	80.6	78.4	84.0	55.9	63.7
One room houses (%)	49.77	27.7	----	28.61	-----	23.28
2-4 room houses (%)	11.03	18.69	----	18.39	-----	20.22
Persons/ housing unit	7.0	8.0	----	8.0	-----	7.9
Persons/ room	3.6	3.3	----	-----	-----	-----
Electric connections (%)	33.48	72.2	25.5	67.4	80.5	95.8
Piped water in house (%)	7.95	27.2	3.6	21.9	34.0	53.5
Piper water outside house (%)	9.09	12.3	6.7	12.7	23.6	10.1
Separate latrine (%)	-----	24.51	----	21.09	59.67	41.57
Shared Latrine with other housing unit (%)	-----	18.17	----	13.86	7.30	39.68
No latrine (%)	-----	57.32	----	65.04	33.0	18.75
RCC roofs (%)	4.79	16.4	2.3	11.8	19.6	39.2
BALUCHISTAN						
No. of housing units	592,814	971,116	----	775,954	-----	195,162
Rental housing (%)	4.58	4.99	1.03	1.14	23.99	20.31
Owned housing (%)	84.02	86.64	87.84	90.45	63.14	71.48
One room houses (%)	60.47	42.77	64.25	46.66	39.79	27.33
2-4 room houses (%)	9.30	13.84	----	12.37	-----	19.68
Persons/ housing unit	7.6	6.7	7.6	6.4	7.6	7.8
Persons/ room	4.2	3.05	4.5	3.05	3.2	3.00
Electric connections (%)	13.48	46.62	6.33	36.87	54.95	85.37
Piped water in house (%)	6.56	25.31	1.07	14.84	36.61	66.94
Piper water outside house (%)	7.65	4.33	3.16	4.01	32.21	5.59
Separate latrine (%)	-----	8.58	----	14.46	63.66	34.94
Shared latrine with other housing unit (%)	-----	29.26	----	23.61	9.93	51.70
No latrine (%)	-----	52.16	----	61.92	26.41	13.36
RCC roofs (%)	2.77	5.19	0.81	1.42	13.51	20.19

Table 8.6: Housing Conditions in the Provinces

Physical conditions	Total		Rural		Urban	
	1980	1998	1980	1998	1980	1998
PUNJAB						
No. of Housing Units	7,538,326	10,537,127	----	7,336,193	-----	3,200,934
Rental Housing (%)	6.18	7.1	1.5	2.0	19.3	18.9
Owned Housing (%)	79.31	83.0	82.4	87.3	70.6	73.0
One Room Houses (%)	47.94	31.97	----	33.78	-----	27.81
2-4 Room Houses (%)	11.59	17.82	----	.08	-----	19.53
Persons/ housing unit	6.5	6.9	----	6.9	-----	7.1
Persons/ room	3.3	3.0	----	-----	-----	-----
Electric Connections (%)	29.06	72.49	13.6	63.34	72.7	93.45
Piped water in house (%)	10.84	24.34	2.1	11.03	35.7	54.80
Piper water outside house (%)	3.21	2.18	1.3	1.69	8.4	3.17
Separate Latrine (%)	----	26.52	----	15.08	57.08	52.75
Shared Latrine with other housing unit (%)	----	15.76	----	7.91	9.62	33.75
No Latrine (%)	----	57.72	----	77.01	33.30	13.50
RCC roofs (%)	6.87	21.9	1.3	12.6	22.2	43.3
SINDH						
No. of Housing Units	2,781,873	5,022,392	----	2,850,989	-----	2,171,403
Rental Housing (%)	10.72	12.20	1.10	1.55	22.98	26.19
Owned Housing (%)	77.04	76.90	85.35	86.00	66.45	64.96
One Room Houses (%)	61.02	56.94	72.84	72.69	45.95	36.25
2-4 Room Houses (%)	8.57	10.64	----	5.03	-----	18.01
Persons/ housing unit	7.1	6.0	7.1	5.5	7.0	6.8
Persons/ room	3.94	3.33	4.73	3.93	3.33	3.09

Continued...

Physical conditions	Total		Rural		Urban	
Electric Connections (%)	35.92	70.08	10.94	52.62	67.76	93.00
Piped water in house (%)	20.85	37.17	3.76	13.53	42.63	68.21
Piper water outside house (%)	19.21	4.53	4.90	3.29	37.45	6.17
Separate Latrine (%)	-----	35.36	-----	24.23	74.71	49.97
Shared Latrine with other housing unit (%)	-----	30.57	-----	20.08	9.51	44.33
No Latrine (%)	-----	34.08	-----	55.69	15.79	5.70
RCC roofs (%)	15.94	25.53	1.38	6.44	34.48	50.60

8.8.3 Nature of tenure

88. Ownership of a house provides a permanent shelter, especially to the poor and, thus, creates sense of satisfaction and security. According to 1998 Population and Housing Census of Pakistan, of the total (19.3 million) housing units, nearly 15.6 million or 80.8 percent were owned, 1.7 million or 9.0 percent rented, and 2.0 million or 10.2 percent rent free. The percentage of owned housing units was higher in the rural areas compared to urban areas. Similarly, the percentage of rent free houses was higher in rural areas as compared to that in the urban areas. However, the percentage of rented houses was significantly higher at 23.2 in urban areas as compared with only 2.3 percent in the rural areas.

Table 8.7: Nature of tenure by region (1981 and 1998)

Tenure	All Areas		Rural		Urban	
	1981	1998	1981	1998	1981	1998
Owned	78.4	81.2	82.6	86.8	67.7	68.9
Rented	7.7	8.6	2.2	2.2	21.9	22.7
Rent Free	13.9	10.2	15.2	11.0	10.5	8.4

Source: Government of Pakistan (1981, 1998).

8.8.4 Housing issues in rural areas

89. Very little research has been carried on housing issues for rural areas. There is a need to understand the change that has taken place there as a result of the change from barter to a cash economy. Social structures, which once guaranteed housing either through labor services provided, or by an exchange of skills, have broken down. Communal lands from which raw material for housing was gathered are either not sustained anymore, or exist only on paper and in memory. As a result, the quality of housing in rural areas has declined considerably. Though the government has over the years done well to provide infrastructure at the rural level, mostly through foreign loans, capacity to maintain that infrastructure was never developed at the local level, and this has led to a large number of abandoned facilities in rural areas.

8.9 Housing Construction

90. Internationally, the construction industry is considered as one of the major industries contributing to the Gross Domestic Product (GDP) in developed countries. It is also a source of employment for millions of people the world over. The total worldwide spending on construction in a year is about \$3.2 trillion, with Pakistan's contribution being \$5.2 billion. Construction activity has been increasing in recent years, mostly in the upper end of the market. According to the Federal Bureau of Statistics, construction output accounts for 2% of

GDP, with housing representing less than half that total. Output growth has been around 8% in 2003.

Table 8.8: Housing construction in Pakistan and other countries 1997-2003⁴⁰

Countries	Share of GDP	Share of Employment
United States	4	3
Korea	5	3
Brazil	6	5
Russia	3	5
Pakistan	1	1
India	1	1

91. Even though the general macro-economic conditions appear quite conducive to the general development of the housing sector; housing finance has not emerged as a dominant option yet, and this has curtailed the construction industry's growth. International Developers and large state and private developers remain significant bidders for housing projects, but the smaller builders are lagging behind, owing to increased construction costs and the difficulty in accessing finance. Developers are distinguished from builders in their ability and willingness to take the construction risk to finance a project with funds other than those provided by the future buyers during the process of construction. The cost of construction has also been rising regularly, despite governmental efforts to bring down the prices of essential inputs. This is due to the existence of cartels in the cement industry, which fix prices at artificially high levels. High land and input costs, combined with the lack of financial depth of the local construction sector, has significantly impeded growth.⁴¹

8.9.1 Housing policy impact on construction

92. A positive step taken by the government has been the formulation of the National Housing Policy and the measures taken to implement it. The objective of the policy is to create affordability of owning a housing unit, especially for the middle- and low-income groups in both urban and rural parts of the country. As stated earlier, the housing and construction sector has broad linkages throughout the economy and, if seen in the context of all its linkages, its real impact on the total GDP could be as high as 15 to 20 percent.⁴²

93. Immediately after the announcement of the 2001 housing policy, the government took the positive initiative of resuscitating the Mera Ghar Scheme of Nawaz Sharif and entrusted the job of constructing approximately 4,564 housing units/apartments in four major urban centers of Karachi, Lahore, Islamabad and Peshawar at an estimated cost of Rs. 5 billion to the Pakistan Housing Authority.⁴³ The work has awarded to leading construction companies of Pakistan and the design responsibility rested with leading designers.

94. In our discussions with developers in Lahore, this was lauded as a step in the right direction, and it was suggested that schemes like this, which have been lying gathering dust for decades, should be revived on sound commercial bases. They not only create new jobs for thousands of people but will also boost the construction and associated industries. The 'Mera Ghar Scheme' which was later renamed as 'Pakistan Housing Scheme' consists of 42 housing projects of about 100,000 homes. The project figures say that the economic

40 Pakistan: Improving the Performance of the Housing, Tourism and Retail Sectors 2005 FIAS

41 Focus group discussions

42 ABAD publications

43 www.jang-group.com.pk

activity expected to be generated with the implementation of this project would cover homes for 100,000 families, employment for about 100,000 to 120,000 people, economic activity worth Rs. 60 billion and support to about 100 allied industries. This includes requirement of at least 350,000 tons of cement, 2,050,000 tons of sand/crush, 80,000 tons of reinforced steel, 5,200,000 square feet of windows/doors, 2,000,000 square feet glazed tiles and 5,000,000 of electric wiring.⁴⁴

44 Figures of The All Pakistan Contractors Association (APCA), The News

Section 9

Housing Finance

9.1 *Housing Finance's Role as a Catalyst for Economic Growth*

95. The housing finance market is among the most important in the economy. It accounts for a sizeable portion of the production activity of a country, through its backward linkages to land markets, building materials, tools, durable goods and labor markets. Housing markets have significant forward linkages with financial markets, as well. Mortgage debt accounts for a large proportion of household debt and, through secondary markets and securitization, supports the efficient functioning of domestic and international financial markets. Housing markets are routinely monitored as an important leading indicator of overall macroeconomic activity. The housing finance sector has a tremendous developmental impact, both in terms of providing social stability and in promoting economic development.

9.2 *Current Scenario*

96. During the last few years, favorable developments in the economy have facilitated the offering of housing finance by financial institutions. On the supply side:

- Banks are flushed with liquidity due to reduced borrowing by the government;
- De-dollarization of the economy; and
- Billions of dollars came into the country following the close scrutiny of bank accounts in the West after the September 11th attack on the World Trade Center.

97. In this scenario, banks are looking for profitable lending options and developing asset-based consumer products. Housing finance provides an attractive opportunity as both profit margins and recovery rates, on average, are higher than corporate lending.⁴⁵ On the demand side:

- Some commercial banks devised marketing campaigns to increase the size of their housing portfolios. This included intensive advertising campaigns, waivers of processing and administration fees, gift offers and other incentives, on-the-spot loan approvals without sufficient documentary evidence. A housing loan is inherently different from any other retail loan. This is because a house is probably the single largest investment a person makes in his/her lifetime. It has been noticed that a customer seeking a housing loan does not just require finance since they also need ancillary services like loan counseling or legal advice to ensure the title of the property is clear or technical advice to ensure that the structural aspects

45 Ishrat Husain. Housing Finance in Pakistan: Progress, Prospects and Problems

of the property are in order. It is these add-on services that distinguish the caliber of services rendered.

- The low interest rates and favorable tax treatment are encouraging early homeownership as monthly mortgage payments become more affordable.⁴⁶

98. The increasing scope of finance for housing in Pakistan has made many local and foreign banks engaged in house financing activities. The potential of the industry promises a sound future of the capital resource. For example, according to Standard Chartered Bank, the mortgage market could reach \$5 billion in five years from the \$200 million in 2006 (excluding \$130 million speculative mortgages)-1\$ billion if no reforms.⁴⁷

Table 9.1: Housing loan portfolio as on September 30, 2003 (Rs. Million)

Banks	Total Disbursements		Total Outstanding	
	# of loans	Amount	# of loans	Amount
Nationalized	634	Rs.188.8	633	Rs.163.4
HBL-Rs.89				
NBP-Rs.97				
Denationalized	43	Rs.63.1	41	Rs.55.1
MCB-Rs.63.1				
Private Banks	1079	Rs.1393.2	1044	Rs.1229.5
Union Bank Rs.489				
Askari Rs.626				
B.A.F Rs.141				
Foreign Banks	1882	Rs.2796	1350	Rs.1727.6
Citi Bank Rs.1968				
ABN Rs.827				
	3945	Rs.4547.9	3068	Rs.3175
H.B.F.C	418,530	Rs.30,789	151,031	Rs.17,810
Total	422,475	Rs.35,337.4	154,099	Rs.20,986.6

Source: S.B.P. Quarterly reports-2003. Arif Elahi: Housing Finance in Pakistan

9.3 Analysis of Distribution

99. Customers are significantly more discerning than in earlier years. With a rise in the number of players in the housing finance industry, banks and housing finance institutions have to reach out to customers, rather than vice versa. Commercial banks have the inherent advantage of capitalizing on their large network, but the quality of service rendered may lack focus as housing loans are one of the many activities performed by a bank. For a dedicated housing finance company, building up a large network is often time consuming and expensive.

100. While HBFC no doubt had a head-start over its competitors, it has developed overtime a unique distribution model. HBFC has a total network of offices in 80 cities across the country. Of the all the branches, 55 are parent branches while the rest are service centers. A service center is a small office, typically manned by two or three individuals who perform all front-office functions, but back-office activities are supported by the parent branch. In addition, HBFC also conducts outreach programs which essentially are like mobile offices. Outreach programs are conducted at regular intervals in locations where HBFC does not have a permanent presence but where there is scope for business. If business from these outreach programs exceeds the target, and there is potential for incremental business, the location gets converted into a service center. This model has helped to effectively reach out to more customers.⁴⁸

46 *ibid*

47 FIAS, Improving the Performance of the Housing, Tourism, and Retail Sectors: Pakistan; World Bank

48 HBFC. Meeting Challenges: Asset Side & Liability Side

Table 9.2: Banks share of the Housing Finance Sector

Name of Bank	Percentage of Share	Average Amount Per Loan
Habib Bank Limited	4.16 %	Rs.0.3 million
National Bank of Pakistan	2.13 %	
Muslim Commercial Bank Ltd	1.38 %	Rs.1.5 million
Union Bank	10.75 %	Rs.1.3 million
Askari Bank	13.76 %	
B.A.F. (Bank al-Falah)	3.10 %	Rs.1.5 million
Citi Bank	43.27 %	
ABN Amro Bank	18.18 %	
Others	3.27 %	
	100 %	
H.B.F.C.		
Outright Purchase	65.8 %	Rs.0.07 million
Construction	17.99 %	
Renovation	16.90 %	
	100 %	

101. The above figures indicate the following facts;

1. Out of the total loans, 62 % market share is with the foreign banks, 28% with private banks, as compared with only 6% with the nationalized banks.
2. The market leader, which had an almost monopolist share originally in the Housing Finance, is still H.B.F.C., with total disbursement of almost Rs. 31 billion, followed by all the banks together at Rs.4.5 billion.
3. The figure of Rs. 4.5 billion shows a significant improvement in the banking sector, which can be attributed to improved macro economic conditions, the National Housing Policy, measures taken by the State Bank of Pakistan, and increasing public awareness of financing options.

9.4 Constraints and Risks

102. Whilst the middle- and upper-income groups have benefited significantly from the introduction of housing finance options, the formal housing finance sector continues to elude the lower-income groups. The twin problems of affordability and accessibility that thwart the progress of housing in Pakistan need to be addressed. For this, the government has to withdraw from direct participation in the housing and housing finance sector and, instead, needs take on the role as a facilitator to create the enabling environment to encourage private sector capital. Further efforts of the government are required to strengthen foreclosure laws, land records need to be computerized and archaic land laws, especially rental laws, need a complete overhaul. It is encouraging, that steps, such as setting up of credit bureaus, introducing mortgage insurance, allowing real estate mutual funds and creating a favorable environment to facilitate foreign direct investment in housing, are being implemented as these will help stimulate the housing finance sector.

103. The housing finance sector in Pakistan has undergone an impressive change over the past few years. However, as debt markets are not very deep, access to long-term funding for housing finance institutions is difficult. Most banks use their short-term funds from savings and current accounts and deploy these funds in long-term housing loans, thereby creating an asset liability mismatch. The State Bank of Pakistan has warned banks of the dangers of borrowing short and lending long. A convergence with developed market housing finance yields is of course not in sight as significant risks in the market remain:

- Liquidity risk: The investment market is still in its infant stage. Investors face serious challenges in finding appropriate investment product.

- Property market transparency risk: The Heritage Foundation rates the Pakistan property market transparency as low in its survey from 2004. Although market transparency has obviously improved, it is still hard to get reliable and consistent information on the property market. There is also a need for more professional valuation institutions. This holds even for the major cities.
- Overall market transparency risk: Transparency International ranks Pakistan as 146 out of 159 countries with regard to the perceived corruption level.⁴⁹
- Macroeconomic risks: Interest rates, inflation and exchange rate risks remain important, although volatility in these indicators has decreased significantly in recent years.⁵⁰ The provision of public goods is in many regions still inadequate (education, transport infrastructure, etc.).

Table 9.3: Asia: Property Rights Index⁵¹

Singapore					1
Hong Kong				2	
Taiwan				2	
Japan				2	
South Korea			3		
Sri Lanka			3		
Thailand			3		
Malaysia			3		
Armenia			3		
India			3		
Tajikistan		4			
Azerbaijan		4			
Bangladesh		4			
Cambodia		4			
China		4			
Georgia		4			
Indonesia		4			
Kazakhstan		4			
Kyrgyzstan		4			
Mongolia		4			
Nepal		4			
Pakistan		4			
Philippines		4			
Uzbekistan		4			
Vietnam	5				
Myanmar	5				
Laos	5				
Turkmenistan	5				
North Korea	5				
	Very Low ←	Moderate			→ Very High

49 Police, power, judiciary, and land are the categories said to be most prone to corruption; but which are most important for efficient land markets. Transparency International, 2006

50 Pakistan currently ranks 110 out of 157 in term of Economic Freedom Index of the Heritage Foundation

51 **Asia: Property Rights Index:** A subcomponent of the Index of Economic freedom, the property rights index scores the degree to which a country's laws protect private property rights and the degree to which its government enforces those laws. Scores are from 1 to 5, **lower scores are more desirable**, i.e., the better property rights are protected.

Section 10

Real Estate Support Services

10.1 *Role of Urban Planners*

104. With the rate of urbanization that Pakistan has been experiencing, there is a growing need for urban planning. Land use planners have to upgrade their skills considerably to monitor and forecasts land use trends and infrastructure needs in a manner consistent with the anticipated medium-term growth of the cities and their financial capabilities.⁵² They have to be trained in modern methods of joint public/private development. In short, they have to be trained for a completely new approach to their job, combining urban planning, real estate finance, and legal negotiating skills under both public and private hard budget constraints. Their job functions should include:

- Monitoring land use trends brought by households and enterprise demand;
- Monitoring market land prices and rents;
- Monitoring the supply of developable land and the change of use of already developed land;
- Reviewing the affordability of land use standards in relation with land prices and construction cost;
- Relating the cost of primary infrastructure with the value, the type and intensity of use of the land it serves; and
- Analyzing the spatial, economic and financial consequences of land development alternatives.

10.2 *Real Estate Professionals*

105. This needed evolution of the job content of urban planners, parallels that of the new urban professions emerging in Pakistan such as property dealers, mortgage bankers, land developers, and real estate developers. In our discussions with real estate professionals, they mentioned lack of training (especially regarding valuation methods and assessment of market feasibility) as key obstacles to the growth of their profession. The real estate agencies, which could be natural brokers or arrangers for the provision of financial services and real estate information, remain unorganized and insufficiently qualified to meet the full spectrum of professional possibilities. It is recommended that a Policy and Research Capacity be built up, through the establishment of a:

- **The Pakistan Real Estate Federation (PREF).** Its members should include professional real estate brokers. PREF should be a fully self-sufficient, not-for-profit, professional organization that offers its members a wide range of services, including

52 ESCAP. Human Settlements: Urban Land Policies for the Uninitiated.

regional and national conferences, training programs, certifications, publications, and business tours to other developed and developing countries. The Federation should actively participate in the development of real estate market legislation and successfully represents its members in Parliament, Government and other national institutions. PREF should also form partnerships with other international professional real estate organizations such as the (U.S.) National Association of Realtors.

- **Housing and Real Estate Institute.** This would be the think tank behind the PREF and could be established in partnership with a leading university of Pakistan. The establishment of the discipline of real estate economics would help in the dissemination of a common language of discourse and promote standardized procedures, both necessary for national market development. This Institute should have a large real estate library, with the collection open to students and professionals alike. It should arrange and organize national and international conferences and publish a quarterly magazine on real estate on the activities of the PREF and trends on real estate. It should seek its funding from the PREF, student enrollment, and also through national and international grants.

Section 11

Policy and Strategy - Options for an Improved Real Estate and Housing Sector

106. The federal government, perhaps the Ministry of Commerce, needs to provide overall guidance on the content and organizational aspects of a real estate development program. It is important that the federal government ensures the institutional collaboration with several concerned agencies, the Ministry of Finance, the Ministry of Housing, NRB, HEC, as well as the Ministries of Defense and Railways, both of whom hold considerable stakes in real estate in Pakistan. Many of the RE reforms fall in the domain of provincial and local governments which need to be on board. The role of the federal government would be to provide leadership, technical and fiscal support to them. A results based framework should be used to establish a clear and transparent relationship between policy goals, objectives and targets as they relate to various instruments of policy intervention.

107. Thus for developing a well-functioning real estate and housing market, the following short and long term recommendations are proposed.

11.1 Short Term Strategies

11.1.1 Relax rent control laws

108. Rent control is equivalent to a tax on property owner and subsidy for a tenant. Thus the rent control laws discourage RE investment, kill incentives to maintain RE, rental market shrinks, banks refuse to finance RE developments for rental market. Hence these laws inhibit RE development. These laws lower costs for sitting tenants and cause the rental stock to suffer from a lack of maintenance and, eventually, to decline, as investors shift towards other products. An immediate fall-out is growing slums. Very generous tenant laws make most renting a very risky operation, resulting in a very small rental market. Private banks refuse to finance developments destined for the rental market. A large share of land disputes are tenant related. This issue disproportionately affects the middle and lower classes for whom renting is the only option for moving out of the slums, especially in the current high-price environment. Rent control reduces the supply of rental real estate and destroys the incentive to maintain quality real estate.

109. The rent control adversely affects the retail and wholesale trade, especially the development of professionally-managed shopping malls. The tenant laws in Islamabad are more appropriate and hence the rental market is significantly more developed (40% of the

market against 20% in Lahore).⁵³ Under the Rent Restriction Control Act of 1959, a commercial property on the Mall in Lahore was being charged a monthly rent of Rs. 19,000, whereas assessments based on the actual market indicated that the rent should have been around Rs. 350,000. Similarly, houses in big cities had been rented out for as little as Rs. 50 per month. In some cases, farmland was leased out for just 40 kilograms of grain per acre per year. In many cases, shops in towns and cities were fetching just Rs. 10 or Rs. 12 a month. Shops, houses and flats on the Mall were rented for less than 10 per cent of the rent being charged for the adjoining properties.⁵⁴

110. International experience suggests that rent control, in conjunction with a legal framework too favorable to tenants against landlords, can result in the shrinking or near death of the private rental sector, resulting in the exclusion of (formal) rental as an option to the poorest parts of the population, instead of helping them to find decent housing.

111. *Hence the suggestion is to repeal rent control law, which would help attract new RE investments and redevelop old properties.*

11.1.2 Apply zoning restrictions and building codes flexibly

112. Zoning and building laws should be amended to allow the maximum of flexibility in land input and land use. Urban planners should identify areas that are more likely to be transformed in the near future. The allocation of land in cities should be driven by its current opportunity cost. Most of the land occupied by enterprises close to the city center has a high value because of the accessibility of work places and lesser transport costs. The best alternative use for such high-accessibility areas will probably be a mix of commercial, office and residential floor space with a high floor-to-land-area ratio. Developers of such projects would be willing to pay market value and be able to bid centrally-located land away from the low-value; government-owned enterprises that currently occupy large areas of centrally-located land.

113. In an ever-changing urban scene, the zoning requirements are in a constant state of flux, but no systemic reviews or up-gradation has been taking place. The conversion of rural land into urban land at the town periphery is a key means of increasing the supply of land, and one that should benefit the lower classes the most (including farmers). But this has been made problematic by ill-inspired interventions of local and provincial governments. The local government in Karachi, for example, has put a ban on the conversion of Barani land around Karachi following malpractices (converted land made available with the intention of developing social housing ended up being used for more profitable commercial ventures).

114. The existing building regulations of Karachi Building Control Authority were framed in 1963 and re-drafted in 1979 with minor changes. Since then values of plots, on the other hand, have gone up more than 300 times and the cost of building materials and labor charges have witnessed a tremendous change. The only logical reason that the old laws are still retained is because the land prices stipulated in the laws have become a source of income between the policy makers and the land grabbers. Furthermore, a large share of the city buildings cannot be put on the secondary market or used as collateral because their developers did not respect the statutory limit on number of stories. Resolution of their legal status has been pending for years.⁵⁵ The worst sufferer in these cases is the government itself. The government is incurring losses of billions of rupees, which it could have recovered in the form of taxes. Since many housing units are lying vacant and unused, and future disposal is also uncertain, people have stopped paying installments of loans that they had borrowed.

⁵³ Pakistan: Improving the Performance of the Housing, Tourism and Retail Sectors 2005 FIAS

⁵⁴ www.dailytimes.com

⁵⁵ Urban Resource Center

Thus there is an urgent need to establish a regulatory commission to continuously review the zonal shifts and activity shifts as demographic patterns change in urban areas.

11.1.3 Make government prime land available for city development

115. The prime lands owned by governments should be put to their most competitive use. Governments control a large part of prime urban land, and there is no institutionalized policy framework or mechanism to determine the criteria and frequency of government land disposals, especially within and around major cities. According to the Association of Builders and Developers (ABAD), the Government of Pakistan directly controls 40% of the land. A large share of the land controlled by the government is not being used for productive or strategic purposes. Acquiring land from the government is problematic also. The FIAS study found that it takes, on average, 135 days to acquire it (as compared with 63 days in the case of private land, which is by no means a good practice benchmark). Other government institutions that should make more land available to the market include Railways, The Armed Forces, Telecom and the Port Authority.

11.1.4 Expedite land disputes and promote Alternative Dispute Resolution (ADR)

116. Courts carry a huge backlog of land-related disputes that take years to resolve. More than 40 percent of all court disputes are land related, and accordingly there are more than a million land-related disputes pending resolution. The court proceedings thus drag on for years, thereby enabling illegal activities of the land mafias and short-lived opportunistic developers to flourish. Since land disputes have negative multiplier effect, there is an urgent need for mediation/ arbitration of the land disputes. This mediation/ arbitration can be informal decided upon by communities and upheld by the courts. Where the legitimacy of such mediation bodies, especially at the local level, is well established, parties to any land dispute can seek redress with the assurance of effective enforce enforcement.

11.1.5 Improve market governance

117. Government should remove land subsidies to public sector developers. The access by public developers to land at below market prices, and the subsidies embedded in below market price land for households and cooperatives are common in Pakistan. These land subsidies are often non-transparent and usually regressive. Furthermore, privileged access to public resources by public finance and land development organizations creates unfair competition and crowds out the private sector from getting into housing finance and housing production businesses. In a healthy market economy, private developers compete for the same location. The winning bid should go to the activity estimated to be most profitable at that site. Land prices exert their pressure on the whole supply of land, including land that is already built on. This is the key to economically efficient cities. Land management reforms should thus focus on reducing land subsidies and on making land allocations better targeted and transparent, besides reducing the ownership of land by the public sector. The non-transparent subsidies are regressive for RE markets.

118. Government should prepare a code of conduct and regulate RE cooperatives. A network of housing schemes and builders offering plots/ housing on installments have come in. Many of them have inappropriate background, and are creating a lot of uncertainty in the RE market by defrauding individual investors.

11.1.6 Establish information, education and communication (IEC)

119. Establishing a system to collect and offer information related to real estate can help planning and market development. In developing investment products related to real estate, such as real estate investment trusts or securitized real estate instruments, the accumulation of information related to real estate, such as rental prices in different zones or the vacancy rates of buildings, is essential. However, since such data is not centralized in Pakistan, it is difficult to project through mathematical analyses the expected yields from real estate investment. In order to overcome this, it will be necessary to establish a data center which accumulates data related to real estate, and also a system whereby individual real estate companies and financial institutions can accurately calculate the yield and risk of involved in real estate investments. To encourage such IEC and research in the RE sector, the government should:

- Establish a regulatory commission with a mandate to continuously review zonal and activity shifts as demographic patterns change in urban areas.
- Establish an autonomous data center which accumulates data related to real estate, plans, major schemes, prices and rental values in different zone, vacancy rates of buildings, etc.
- Build policy and research capacity through establishment of:
 - A real estate federation
 - A housing and real estate institute
 - Involve media as appropriate for dissemination of RE related information.

11.2 Medium - Long Term Strategies

11.2.1 Address legal/ regulatory issues

120. Unclear property rights and inadequate titling and registry systems hinder development of RE market. The concerning laws, Stamps Act and Registration Act, date back to the 19th century. Property records are not traceable in registries while stamp/registration fees are high and vary widely. Perceived tax burdens and long and cumbersome procedures further lead people to avoid registering their property and transactions. Hence property transfers/collaterals become risky, uncertain and inefficient, involving delays and entailing a considerable cost.

121. Land Acquisition Act is also regressive, which hinders speedy acquisition of land at reasonable prices and results in high land cost. Special authority to some institutions, like DHA, creates unfair competition in the market. Attempts on land acquisition invariably get embroiled in long drawn-out litigation. This combined with very weak law enforcement, enables illegal activities by well-connected, land mafias and short-lived opportunistic developers.

122. Hence suggestion is to *simplify and modernize RE laws and regulations to present day requirements, rationalize and standardize the rates of stamp duty and registration fees across the four provinces and the federal capital, and computerize land and property records*. The true value of land is its market potential, not its current use. In order for the full market potential of land to be realized, it must be available for sale. Unclear property rights and inadequate titling and registry systems greatly hinder such development and remain a serious problem. Weak property titles combined with very weak law enforcement enables illegal activities, which can take many different forms. One form consists of acquiring, illegally and physically, the central lots of a major real estate project in order to blackmail developers who need to regain these lots to move ahead with their project.⁵⁶ Another form is

⁵⁶ Focus group discussions

to sell to many different buyers lots of land which may not even exist. It can also consist of grabbing vacant land which is then turned into slums, from which they extort “protection” money as well as the provision of basic utility services at very high prices.

123. These issues lead to much uncertainty and higher final costs as well as numerous litigations and long delays. They also discourage private banks and foreign investors, which refuse to deal outside certain areas like CDA or DHA. It is a well-known fact that titles are translated by the market into higher prices, and an increase in property values is considered as a contribution to the development of land markets. In general, public authorities need to *establish and publish guidelines for property registration and development. Systems need to be modernized, cost-effective and flexible. Regulatory and policy frameworks should be adjusted to incorporate different forms of tenure rather than leaving them illegal.* In particular, owners should be allowed to use their property as collateral even if not fully titled. A study done by Dowall and Leaf (1990) in Indonesia shows that the premium placed on registered parcels over unregistered parcels was more than 50% in Jakarta’s central business district, and land values are positively correlated with security of tenure.

11.2.2 Reform taxation

124. Besides registration and stamp duty, RE is subject to WH income tax, CVT, capital gains tax, and property tax. High tax rates and complicated procedures lead to evasion/corruption. Hence suggestions are to: *rationalize taxes, lower tax rates, broad-base them and reduce exemptions, including the stamp duties/ registration fees (as suggested earlier); simplify tax statutes and reduce official discretion and contact with the taxpayer to control the wide-spread corruption; and review property values/tables periodically (say every 5 year) and/or may tax properties on ad-valorem rates.*

125. Thus there is a needs for reorientation of the government’s taxation role in land-related transactions and in-depth tax rationalization program that promotes economic behavior consistent with the overall long-term economic policy objectives. In line with the spirit of the NHP-2001, efforts need to be made to *rationalize and standardize the rates of stamp duty and registration fees across the four provinces and the federal capital. The rate of the special land holding tax imposed on unused land should be raised to promote the more effective utilization of land;* at the same time, *statutes should be strengthened* by introducing stricter requirements for the tax exemption system. Property values generally rise much faster than the increase in prices of other goods and services, especially in rapidly growing urban centers; hence *property valuations and tax rates must be kept up to date.* This may require provincial and/or local governments to *set up real estate valuation organizations and field offices in TMAs for valuation of real estate at the local level.*

11.2.3 Make up for the inadequate planning/zoning

126. All local governments should *prepare long term master plans for city-development zones* (as provided in the housing policy) by keeping in view the socio- economic trends and citizen needs. An immediate target should be *at least one commercial area in each district/TMA.* Since local government capacities are limited, the *federal and provincial governments may assist them with technical assistance and proto plan models.* The city/ town plans should *provide for multi-story buildings for housing apartments, offices and other commercial uses* to conserve on space and economical use facilities, transportation, water supply, sewerage, hospital/schools, parks, etc. This may require *developing a legal framework for common ownership and maintenance.* The large cities may have *package of low-cost housing to improve living conditions in katchi abadis and slums* (as provided in the

housing policy. The *plans and their periodic reviews should be transparent*, including the plans for conversion of rural lands.

127. *Zoning laws should be comprehensive and strictly prohibit unplanned expansion of cities into agricultural lands. Building laws may be reviewed and amended periodically in the light of emerging market conditions.* Land disputes may be expedited through alternative dispute resolution mechanisms. Presently, there are more than a million pending land-related cases in courts, and proceedings drag on for years.

11.2.4 Make up inadequate city infrastructure development

128. Resource allocations for city infrastructure development have been limited. *Local governments should be resourced and set aside a reasonable share of resources for municipal development.* Revenues generated from sale of government lands, as suggested earlier can be utilized for the infrastructure development. Urban land management reform should consider *public private partnership* for land development

11.2.5 Upscale mortgage finance

129. Banks have started offering mortgage finance in the past few years due to favorable developments in the financial sector. Banks have been flush with liquidity due to reduced government borrowing, de-dollarization and the post 9/11 inflow of remittances. Thus banks have explored products like housing finance. Reportedly, the housing finance is yielding better profit margins and recovery rates than corporate lending. Besides favorable tax treatment also helped. But still, the scale of housing finance remains much lower (Rs. 21 billion on Sep 03) than its potential. A large part of lending is by HBFC, followed by a small share by commercial banks, most of it by foreign banks. Commercial banks can exploit their large networks, but their service/quality is limited/low. The HBFC has a smaller network but has overtime developed a niche. Market transparency is the major risk; it is very hard to get reliable and consistent information on properties. Thus the following suggestions are made here to create enabling environment for encouraging private sector investment.

- *Strengthen land records, property rights and foreclosure laws.*
- *Some policy measures like setting up of credit bureaus, mortgage insurance, mutual funds, etc. are already being implemented which need to be encouraged and accelerated.*
- *SBP should ensure implementation of the finance provisions of the 2001 housing policy, e.g. LT bonds, 6-fold increase in annual disbursement of HBFC loans, etc.*
- *Encourage institutional investors to enter RE market*

11.2.6 Promote real estate investment trusts (REITs):

130. The Securities and Exchange Commission of Pakistan (SECP), has already developed the legal framework for REITs in Pakistan, and has prepared a revised draft of the REIT rules for the government's approval. REITs have greatly aided the development of real estate markets in developed countries such as the USA, Singapore, Hong Kong, etc. and have the potential to provide much needed financial support to the RE sector in Pakistan. The REIT would be an efficient mode for providing equity financing as against debt, which is currently the norm for financing real estate developments in Pakistan. There is a general consensus among the major players in the real estate industry in Pakistan that if properly regulated and supervised, REITs would yield a multitude of benefits for the promotion and development of the housing sector by providing an alternative source for raising capital and therefore would help in increasing the liquidity of the real estate market. At the same time, the institution and proper functioning of

REITs is expected to improve the governance structures of real estate companies in the industry, especially with regard to transparency and credibility.

11.2.7 Encourage foreign direct investment in RE

131. The real estate sector needs to be opened up to FDI. Property returns in Pakistani cities are amongst the highest across the world. The average yield from investments in commercial property has ranged between 15-25 per cent per annum in Pakistan over the last few years.⁵⁷ Across the world, real estate is a preferred option for foreign investors. It is estimated that about half the FDI flow into China is for the housing sector only.⁵⁸ FDI in real estate can create major inflows of funds that can enhance domestic investment to achieve a higher level of real estate development. FDI can certainly bring in the funds at reasonably cheaper rates, besides new ideas and technologies, which would enhance the efficiency of the construction industry leading to increased competition levels among the local developers, in terms of price, quality and timing.

132. To attract investment into this sector, it is imperative that the *government increases the comfort level of the existing fund providers through appropriate legal measures and privatization of real estate, besides maintaining industry discipline. Developing a grading system among the developers* will help in this regard by making investors aware of the risks associated with the projects of each developer. Grading would facilitate the overall growth of the real estate sector by providing the developers with incentives to conform to fair trade practices and legal requirements. This will enhance the confidence of the end users and augment the interest of the lenders in these projects, thereby facilitating the flow of institutional funds to the project/project owner. With the construction sector receiving industry status, it is expected that developers and companies will be able to borrow from financial institutions on a priority basis.

11.2.8 Establish a land bank

133. *A land bank may be set up to promote to acquire and invest in urban properties in suboptimal use and reposition them for their best use through appropriate development and environmental risk mitigation* (The details given in an Annex are summarized below). Pakistan has a lot of urban property which is in suboptimal use, particularly the prime urban lands owned by governments. Investments through a land bank can facilitate large investments in urban development, growth and poverty reduction by acquiring urban properties in low use, developing, restoring and repositioning them for their optimal use. The proposed bank would be a corporate investment bank and mobilize resources from equity, investment operations, deposits, deposit certificates, TFCs, bonds, etc. as is usual to investment banks. Besides, the bank may accept the appropriately negotiated values of urban properties in equity contributions. The land bank may be subject to the usual regulations for an investment bank.

134. Initially, the proposed bank may begin business by investing in government urban lands, given the fact that a lot of such prime lands are in sub-optimal use. For this it may:

- Prepare a vision and a master plan for the optimal use of urban properties.
- Prepare an inventory of government urban properties for its likely interventions in one place.
- Conceive of optimal uses for these properties and set the terms (rent, lease, purchase, purchase on installments, etc.) for specific use.
- Estimate and suggest the use of the likely revenue generation from the government prime lands.

⁵⁷ www.dailytimes.com

⁵⁸ Y. P., and A. Murie. Social and Spatial Implications of Housing Reform in China.(2000)

11.2.9 Encourage public-private partnerships for land development and housing provision

135. Public sector dominance in land development often results in a short supply of raw as well as serviced land, untargeted land subsidies, and consequent waste of public resources, together with increases in land prices. As discussed earlier, when public ownership of land is the cornerstone of housing policy, land supply is either far behind the need or inefficiently provided. Land management reforms focusing on land development and public private partnership, sales/auctioning of tracts to private developers, and provision of basic services to already allocated plots are the actions that should be considered. The Table 11.1 below gives some guidelines to increase cooperation between local government and private developers.

136. The joint private/public partnerships and non-profit organization initiatives are needed at the local urban level also, in order to:

- Promote new zoning ordinances and floor space indices in such a way that it encourages supply of affordable housing through an integrated incentive structure for developers;
- Encourage a holistic approach that bundles together new infrastructure projects with affordable housing;
- Coordinate and to lobby for more funding from province and federal government, as well as for expansion of performance based tax credits and subsidies.
- Link some purely commercial developments with affordable housing projects by stressing the long term benefits to firms;
- Modify zoning codes to promote special, low cost, affordable high rises that can simultaneously tackle issues of efficient land usage, as well as affordability.

137. Although the government needs to play the lead role, the RE issues, as everywhere else, have to be addressed by all branches of local and central governance and business and the RE communities.⁵⁹

Table 11.1: Guidelines for increasing cooperation

Points of interaction	Local government as facilitator	Private developer as implementer	Possible negotiating points
Land subdivision sanctions	Grants approval based on master plan and zoning requirements.	Requires approval to reduce risks and costs by proceeding with development as soon as possible.	Local government can accelerate approvals through one window processing, or certification by registered engineer.
Provision of trunk infrastructure	Coordinates with boards and authorities to provide trunk infrastructure.	Requires connection to improve marketing by offering public water, sewers, roads and power.	Local government can negotiate with board and authorities to guarantee connections.
Land assembly	Has powers to acquire land for public purposes by eminent domain (expropriation).	Assembles smaller contiguous land parcels into one large parcel; needs assistance where key parcels are held back due to unreasonable demands.	Local government can assist developer by acquiring land by eminent domain from owners making unreasonable demands.

Continued...

59 ESCAP, Municipal Land Management in Asia: A Comparative Study. CITYNET

Points of interaction	Local government as facilitator	Private developer as implementer	Possible negotiating points
Land for low-income housing	Has responsibility to provide access by low-income groups to land with infrastructure and basic municipal services.	Can include some percentage of land affordable by low-income groups through cross-subsidy.	Developer can provide land for low-income groups; developer or local government can distribute.
Land for public facilities	Has responsibility to provide facilities for education, recreation, health and safety.	Can include sites for schools, parks, hospitals, clinics, police and fire services.	Developer can give sites to local government; price can be zero to actual costs.
Land for commercial uses	Has responsibility to provide convenient access to goods, services and employment.	Can include sites for commercial and office development.	Amount of commercial and office land for sale by developer can be adjusted to cross-subsidize provision of low-income plots and public facilities.
Land for industrial uses	Has responsibility to provide access to employment; can attract industries by offering serviced land	Can include sites for industrial uses.	Amount of industrial land can be adjusted to cross-subsidize provision of low-income plots and public facilities; can be distributed by developer or local government

Source: illand (1993)

Section 12

Concluding Remarks

138. Pakistan seems poised for a high economic growth path.⁶⁰ The gamut of industries comprising the real estate cluster can not only play a critical role in this economic transformation, but can also serve as an engine of future growth. Thus RE reforms as suggested above would need to be carried out to facilitate industry and natural growth of the economy. However, the capacities of governments and other stakeholders are limited and there is an *urgent need for a catalyst agency to drive RE reform agenda*.

139. The 2001 National Housing Policy gives the public sector a very large role in the development and allocation of land resources. While the Policy is well intentioned, the experience is clear, that the public sector is neither a good landowner nor an effective land developer.⁶¹ Pakistan is experiencing fast urbanization that characterized the Latin American countries 20 years ago. A concrete lesson is that without a gradual disengagement and delimitation of the public role in land markets, the result will be inelastic housing supply, as skyrocketing house prices and more urban slums.⁶²

140. Thus RE reform agenda is serious and needs a catalyst agency at the federal level, perhaps in Commerce Ministry, which would drive the RE reform agenda, through:

- Studying the extent of and means to limit governments' role in RE market to market failure and regulation only, including the study of government subsidized RE schemes.
- Working with all concerned agencies (NRB, Housing Ministry, HEC, provincial and local governments), studying and providing TA w.r.t.
 - Development of long term master plans by local governments for city-development zones
 - Establishment of commercial areas in districts and tehsils/ towns
 - Disposal of government prime lands through competitive bidding from a lower to higher use value
 - A package of low-cost housing in all main cities
- Studying, reviewing advocating and helping to develop/ adjust regulations and legal framework for present day requirements, including
 - Property rights (Stamps Act, Registration Act, Land Acquisition Act, Rent Control Act, etc.)
 - Computerization of property records
 - City-planning, zoning and building codes
 - Common ownership and maintenance of multi-storey buildings

60 Goldman Sachs: Global Economic Papers No: 134; mentions that Pakistan is well placed to become a member of the N-11 (the next 11), given its overall structural conditions.

61 Klaus Deininger, Land Policies for Growth and Poverty Reduction. (2003)

62 Mayo, S. Subsidies in Housing (1999), Inter-American Development Bank

- Public private partnerships for land development
- Mortgage finance and foreclosure laws
- Alternative dispute resolution mechanisms
- Helping to review tax statutes to:
 - rationalize and standardize the rates of stamp duty and registration fees across the four provinces
 - rationalize, reduce and broaden tax bases
- Working with SBP/banks, SECP and the Ministry of Housing and Works to:
 - Review implementation of the 2001 housing policy
 - Study finances for LT housing bonds, performance of HBFC and banks on housing finance
 - Study to encourage growth of credit bureaus, mortgage insurance, RE mutual funds, REITs, etc
- Trying to establish a:
 - RE regulatory commission with appropriate representation of stakeholders
 - RE data center
 - RE federation
 - RE institute

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Annex

A Outline Proposal for A Land Bank in Pakistan

141. Investments in land are generating more handsomely returns worldwide than the usual commercial investments. Thus a number land banks have started operations with focus on long-term investments in land. Pakistan has a lot of urban property which is in suboptimal use, particularly the prime urban lands owned by governments. Investments through a land bank can facilitate large investments in urban development, growth and poverty reduction by acquiring urban properties in low use, developing, restoring and repositioning them for their optimal use. Hence this proposal for setting up a land bank to promote investments in urban properties in Pakistan.

Functions

142. The proposed land bank would be a corporate investment bank with a *mission* to acquire urban properties in suboptimal use, add value by repositioning the properties for their best use through appropriate development and environmental risk mitigation.

143. The land bank would mobilize resources from equity, investment operations, deposits, deposit certificates, TFCs, bonds, etc. as is usual to investment banks. Besides, the bank may accept the appropriately negotiated values of urban properties in equity contributions. Initially an approved capital of Rs. 10 billion, with 50% each from the federal government and SBP, is proposed.

144. The proposed bank may begin business by investing in government urban lands, given the fact that a lot of such prime lands are in sub-optimal use. For this it may:

- Prepare a vision, master plan for the optimal use of urban properties
- Prepare an inventory of government urban properties for its likely interventions in one place
- Conceive of optimal uses for these properties and set the terms (rent, lease, purchase, purchase on installments, etc.) for specific use
- Estimate and suggest the use of the likely revenue generation from the government prime lands

145. The proposed land bank would be a leader in acquisition and redevelopment of property and focus on real estate opportunities in strategic vacant and infill areas in urban and suburban settings that are suitable for development, restoration and repositioning. Hence the bank would have to bring together top-notch expertise in real estate, risk management, development and environmental remediation, and regulatory closure to recaptures property values. The key activities of the bank would be:

- Maintaining the inventory of urban properties in strategic vacant and infill areas
- Planning for repositioning of urban property in consultation with stakeholders
- Acquiring low-use lands, buildings, and even operating facilities;
- Redeveloping and premeditating environmental problems;
- Clearing/closing the site from a regulatory standpoint; and
- Returning the property to productive reuse through sale of lease.
- Usual activities of an investment bank

146. Given the nature of the business, the land bank would work cooperatively with all stakeholders and entitling the properties for appropriate productive reuse.

147. In the longer run, the land bank may consider any real estate opportunity in strategic urban areas, including the private sector, for development, restoration and repositioning.

148. The land bank operation should be transparent and available for public viewing on its website. Besides, the bank can provide important real estate related information on urban shifts, plans, leases, prices, etc.

Investment Strategy

149. The land bank would look for specific opportunities where it can:

- provide the original owner/ sellers with the best value for their properties;
- create value by development, restoration and repositioning the property.
- mitigate environmental risks and liabilities through innovative risk management programs; and
- find the prospective buyers/users/leasers

150. The bank may consider the following type of urban properties for investment.

- Land - vacant land or land that requires development, improvement, demolition of obsolete structures, etc. Initially the operations may be restricted to government lands.
- Residential - urban infill and waterfront properties requiring remediation and re-entitlement to develop mixed use and residential projects.
- Retail/commercial - neighborhood and community shopping centers and commercial areas, including sites with dry cleaners or gas stations.
- Industrial/manufacturing - light to heavy industrial and manufacturing sites, including vacant properties, long-term single tenant leases, and multi-tenant properties

168. The target investment locations may be main cities, Karachi, Lahore, Islamabad/Rawalpindi, Peshawar, Faisalabad, Hyderabad, Multan, Sukkar, Quetta, etc. But other locations with strong real estate fundamentals may be considered on a case by case basis.

The framework of investment analysis may consist of the following.

- What is the prior use of property
- What is the most optimal use – the main challenge
- What would be the stakeholders’ analysis and involvement
- What is the role of the land bank

169. The bank deals may meet the following criteria:

- The deal structures should be carefully evaluated so that transaction proves beneficial to both the buyers and sellers.
- Deals may include joint ventures, teaming arrangements with other partners, sale-leasebacks, structured investments, and cash/credit terms of purchase/sale/lease.
- These deals should limit or completely transfer a seller’s exposure on environmental liabilities, providing them with the flexibility to monetize non-producing assets to enable them focus on their core business.

170. Conscious of urban environmental issues, the proposed land bank may give priority to more complex environmental sites involving urban pollution and industrial contaminants that affect atmosphere, sanitation, soils, groundwater, and existing structures. The bank may

leverage its technical expertise for civil design and construction, earthwork, and environmental remediation from related engineering firms, preferably on partnership basis.

Risk Management

171. Given the nature of business, the bank would encounter huge financial and environmental risks of liabilities on its properties. These risks may be reduced/ managed through the following ways.

172. *Expert staffing*: Expert management of real estate development, remediation and reuse, and financial and environmental risks is required for effective investments in real estate and brown field transactions. The proposed land bank would thus need experts in management, finance, law, engineering and environment that have the up-to-date tools and the knowledge base to effectively manage development and risks.

173. *Risk management factors* are very important and would include the selection of remedy, regulatory options, the legal structure of ownership, and investment participation. A strategy to manage the risks of liabilities on bank properties may consist of:

- *Careful assessment* – The bank functionaries would brainstorm and make careful assessments on all aspects of the transaction before its closure. This may entail evaluating the property conditions, deal structure and liability concerns of buyers and sellers to determine the specific requirements for each transaction. The transactions may involve innovations and use of bonds, indemnities, guarantees, escrows, and other tools to control and limit financial, technical, and regulatory risks.
- *Redevelopment, improvement, remediation of properties* – The bank would carefully manage the development and environmental cleanup necessary for each project to create value.
- *Insurance* – The bank may work with top-rated financial institutions to develop the most comprehensive coverage and underwriting of financial, environmental and other characteristics of specific transactions.
- *Regulatory closure* – Once remediation has been completed, the bank works with the responsible governmental agencies to achieve the appropriate completion and operational status.

174. *Investment size*: Investments may range from Rs. 10 million to . 1000 million.

175. *Board approval*: Major transactions may require the governing board approval.

176. *Stakeholders' involvement*: The bank may involve stakeholders preferably with arrangement of equity investments.

177. *Client selection and support*: The risk management strategies may limit risks by the bank dealing with only risk-averse corporate sellers and investors. The bank's risk management program may support clients in dealing with property and environmental issues that result from planned divestitures, mergers, acquisitions, or refinancing.

Bank Management

178. Given the nature of business, the proposed bank may be structured into the following core departments under an oversight governing board consisting of representatives nominated by the main stakeholders.

- Executive (President, Vice President, Human Resources)
- Real Estate
- Finance
- Legal Affairs

- Environment

179. The oversight board may consist of the representatives of following with appropriate voting rights for decisions making in proportion of equity, i.e. value of contributed in cash and property.

- Federal government
- Provincial governments
- City/local governments
- General public - shareholders
- Other partners
- Regulatory agencies (SBP, EPA, ...)

Regulation

180. The land bank would be subject to the usual regulations for an investment bank.