

UNLOCKING STATE CAPTURED REAL ESTATE



Azwar Muhammad Aslam

The challenges that Pakistan economy face today are largely due to the way assets are governed and utilized. The inefficiencies in asset management have stunted the economy, and underutilization due to unproductive use has failed to contribute meaningfully to economic growth. A significant amount of wealth is locked in assets – real estate – in the cities of Pakistan, even easier to unlock and greater in potential than minerals (Haque, Aslam & Qasim, 2024). Most of the prime real estate is occupied by the inheritors of the colonial administration which afterwards expanded the practice of provision of grand houses and gated estates to the state employees (Ibid).

The footprint of the government on Pakistan economy is significantly large i.e., 67 percent of the GDP of Pakistan (Haque & Ullah, 2022). The efficient utilization of the state-owned real estate is pertinent to realize significantly large revenue streams for the state (Haque, 2007; Haque, 2017; Haque, Aslam, & Qasim, 2024). State captured real estate is almost found in all the cities across Pakistan. Underutilization of which through housing facilities for government employees, clubs and grounds for officials, vacant land at prime locations etc. have restricted the growth of the downtowns and ultimately the cities (Haque et. al., 2021; Haque, 2021; Haque, 2007; Aslam, 2023).

This paper is based on insights of the research conducted at Pakistan institute of development Economics (PIDE), which highlights the scale of state captured real estate and the policy reform that is needed to unlock their economic potential. The central to which is land and its management in Pakistan, specifically state-owned land.

STATE CAPTURED REAL ESTATE - SIZE AND SCALE

The concept of state captured land is crucial to understand Pakistan untapped wealth. State capture real estate refers to assets that are ripe for economic activity but due to legal, bureaucratic and structural inefficiencies are sitting idle, managed poorly and generating far below their potential. The wealth that the nation holds is in the productivity potential that the underlying assets offer, which makes the optimal utilization important for the nations to grow. The size and scale of the documented state captured real estate is presented below.

- As per estimates 17,471 houses are allocated to government employees of various categories in Islamabad which occupies an area of 1375 acres and are valued at PKR 2577.6 billion (Haque, Aslam, & Qasim, 2024).
- Housing for parliamentarians and judges etc. along with parliament lodges in G-5, Islamabad occupies approximately 238 acres, with a market value of PKR 648 billion (Ibid).
- Islamabad club spans 425 acres, valued at PKR 2508 billion (Ibid).
- Pakistan Railways has 169,128 acres of land across Pakistan and approximately 17% of it is employed in various non-core operations. Only in Rawalpindi 66% of the land categories for official use at prime location is utilized for residential purposes, which is of significant value (Aslam, 2023).
- Approximately 160 acres of prime land around and near Rawalpindi railway station with significant potential for commercial exploitation is used for railway employee housing (Aslam, 2023).
- Around 1150 acres of prime Pakistan Railway land is leased out to various co-operative housing schemes for railway employees. Among which 116 acres of land in Rawalpindi is leased out on an average annual lease rent of PKR 11,000 (Ibid).
- The Evacuee Trust Property Board (ETPB) owns approximately 100,000 acres of land out of which approximately 20,000 acres has been under illegal occupation (Mehmood, 2022).
- Pakistan steel owns 18,660 acres of land, Auqaf in Punjab owns approximately 75,000 acres of land of which 45% of the Auqaf land in Punjab is laying idle (Ibid).
- The land owned by Auqaf department in Khyber Pakhtunkhwa (KPK) is approximately 65, 101 Kanals, 71% of which is under illegal occupation and as per estimates it cost around PKR 514 million annual loss to Auqaf, KPK (Mehmood, 2022).
- Pakistan Post own 4171 buildings across Pakistan along with 49 valuables plots which are not utilized for any activity, among all buildings a total of 3252 are residential properties, 19% of which are under illegal possession (Ibid).
- Only 5 government owned residencies in Lahore constitute 4000 acres of prime land (Haque, 2023).
- Another estimate by Dowal, (2009) suggests that 30 percent of the land in Lahore is under state ownership and in other large cities the ownership is around 20 to 40 percent of the total city land.

- Underutilization is not just limited to housing for officials, educational institutions are also following these practices. The three universities documented in study by Haque, Khan & Nadeem, (2024) show that Quaid e Azam university, Punjab University Lahore and university of Peshawar have 412, 497 and 280 housing units respectively. Which occupies an area of 50 acres, 100 acres and 180 acres respectively. The situation is same for almost all the public sector universities across Pakistan.

The sheer scale of these assets underscores the country's potential to transform its economy. However, their capture by the state complemented by poor management has not only resulted in wasted opportunities but has also imposed heavy cost on the economy, in the shape of lost revenue, inefficiencies, and corruption.

RETIRING THE DEBT

Government of Pakistan domestic debt is PKR 43,432 billion²² and the total market value of the state-owned land only in Islamabad as mentioned above is PKR 5,733.6 billion (Haque, Aslam, & Qasim, 2024). If the government is to release the land the revenue generated from the sale of land can be used to repay government obligations to the domestic lenders. Similarly, vast tracts of land are present in almost all the cities of Pakistan; by leveraging the value of state captured real estate the government can reduce the debt burden, improve urban infrastructure and foster economic growth, all while unlocking trillions in

OPPORTUNITY COST OF STATE CAPTURED LAND

The opportunity cost of the state-owned land is not only staggering but represents a significant drain on Pakistan economy. The opportunity cost here is referred to foregone revenue and investment that could be realized if assets were to be utilized effectively. The opportunity cost of 1988 acres state land only in Islamabad amounts to 34% of GDP of Pakistan. Indicating the economic activity and value locked away due to the state capture of the land.

The continuation of its use in its current state costs the state of significant revenues and investments, the investment potential through alternative high-rise activity on the land in Islamabad is USD 58.8 billion. It holds the potential to create 351,000 jobs and rental income of USD 1.7 billion (Haque, Aslam, & Qasim, 2024).

OUTDATED LEGAL FRAMEWORK

Much of the Pakistan asset management is still governed by archaic laws that dates to the British colonial period. These outdated and obsolete laws and regulations restricts the growth of the economy and productive use of land, one such example is the legal framework that governs the Pakistan Railways (PR) land.

²²Pakistan Economic Survey, 2023-2024

The internal (policies and practices) and external (Act, Rules and procedure) legal construct are the biggest hurdle in the commercialization and redevelopment of Pakistan Railways land and other state-owned land management (Aslam. 2023). The provisions in the Railway Act, 1890 governing PR land do not cater to the commercialization of the land. Alongside it the provisions of the land acquisition act overseeing the acquisition and disposal of land presents a significant challenge ultimately discouraging the disposal and commercialization of land as per the best market practices (Ibid).

The land classification that exists for land under the ownership of various enterprises does not allow for the exploitation of land to maximize utility. In PR land that is under the classification of operational use is protected by law to not be used for any other purpose, the operational use is meant to be used for core operations of the enterprise. However, the residential real estate for employees is also categorized under operational use which cannot be commercial or otherwise exploited to raise revenues for the state (Aslam, 2023).

Furthermore, the zoning regulation within cities restricts the development of the land as per the needs of the cities and hinders the growth of the cities (Haque & Khurshid, 2023). Which when linked with the current land use of prime state-owned real estate encourages the increasing sprawl in the cities

IMPORT SUBSTITUTION POLICY

The system of land record management is outdated, and it has serious implications for the economy and the society. The contemporary land record management system does not provide titles to land in Pakistan and is just aimed at registration of instrument (Record of right, Transfer deed etc.). The instruments of land property rights are not conclusive and merely based on presumption of truth in few cases. The non-conclusiveness of the property registration instruments increases the uncertainty with regard to the ownership of land. This in return discourages the economic transaction of land. Majority of the issues that the state-owned real estate is prone to are also rooted in the current land record system in Pakistan. Leading to injunction of state-owned land, keeping it out of the economy, and encouraging the illegal possession of the state-owned real estate.

Source: Aslam & Qasim, 2024

MISMANAGEMENT OF STATE-OWNED REAL ESTATE

The management of the state-owned assets is largely controlled by the bureaucracy rather than by professional asset management managers. This has led to inefficiency and capture of the state assets by interest groups. Departments form housing societies to acquire public land at subsidized revenues. Similarly, state-owned real estate is often leased at below market rates to the private sector, locking the valuable assets into low-revenue arrangements for decades (Mehmood, 2022; Aslam, 2023). Since mostly the value of the land is ascertained by the DC rate, which values the land at rates that are significantly less than the actual market value of the land (Qasim, 2022), this in part also encourages the leasing of land at low rates.

UNLOCKING THE STATE CAPTURED REAL ESTATE

- Establish a central repository and balance sheet of information regarding the total amount of state-owned real estate with various departments along with earnings from them, and contemporary use etc.
- Monetization of the non-cash benefits to the government's employees and officials at Market rate. The provision of housing facilities for government employees must be abolished and instead perks shall be monetized at market rate.
 - As per estimates monetization of the land in Islamabad will cost the federal government PKR 135 to 741 billion which will in return release the assets worth trillions of PKR and make them available for significant economic activity.
- Through rezoning allowing high-rise mixed-use development on the released land.
- Ban on the forming of housing societies by various government departments.
- Making necessary amendments to the Acts and ordinances of various state-owned enterprises to avoid policy inconsistency and allowing commercial exploitation of land owned by them. Furthermore, the provisions of land acquisition acts that does not allow the disposal of land at best market practices shall be relaxed.
- Repurposing of the land leased to various co-operative housing societies causing significant revenue losses.
- Release and lease of state owned land at market rates instead of the DC and FBR rates.

REFERENCES

- Aslam, A. M. (2023). Unlocking Pakistan Railways dead capital. In 3rd Rasta Conference. Azwar_M-Aslam_Research_Paper.pdf (pide.org.pk)
- Aslam, A. M., & Qasim, A. W. (2022). Land Titles: A Missing Basic Elemental Of The Real Estate Market (No. 2022: 72). Pakistan Institute of Development Economics. land title (pide.org.pk)
- Dowall, D. E., & Ellis, P. D. (2009). Urban land and housing markets in the Punjab, Pakistan. *Urban Studies*, 46(11), 2277-2300.
- Haque, N. U & Nayab, D. (2007). Renew Cities to be the Engine of Growth. *The Pakistan Development Review*, 505-509.
- Haque, N. U. (2017). Looking Back: How Pakistan became an Asian tiger by 2050. Kitab (Pvt) Ltd.
- Haque, N. U. (2021). The opportunity of Dead Capital. PIDE's Guide To Policy & Research, II.
- Haque, N. U. (2024). Decolonising the city for sustained development: Land, commerce, and real estate. Discourse, Pakistan Institute of Development Economics. <https://pide.org.pk/research/decolonising-the-city-for-sustained-development-land-commerce-and-real-estate/>
- Haque, N. U., & Khurshid, N. (2023). Construction without real estate development. *The Pakistan development review*, 62(1), 1-14.
- Haque, N. U., & Ullah, R. R. (2022). Estimating the Footprint of Government on the Economy. *The Pakistan Development Review*, 61(4), 551-562.
- Haque, N. U., Khan, M. J., & Nadeem, I. (2024). GORs Everywhere: University Land For Public Housing (No. 2024: 5). Pakistan Institute of Development Economics.
- Haque, N. U., Nayab, D., Siddique, O., & Faraz, N. (2021). Cash Poor, Perk (Plots, Privileges) Rich!. Pakistan Institute of Development Economics. Retrieved from <https://www.pide.org.pk/pdf/reports/Civil-Ser-vice-Compensation-Report.pdf>
- Haque, N.U., Aslam, A.M., & Qasim, A. W. (2024). Unlocking State-Captured Real Estate: The case of Islamabad. Pakistan Institute of Development Economics. Unlocking State-captured Real Estate – The Case Of Islamabad (pide.org.pk)
- Mehmood, S. (2022). Wasting Public Wealth—The Antecedents and practice of Public Land Management in Pakistan (No. 2022: 10). Pakistan Institute of Development Economics.
- Qasim, A. W. (2022). The Real Estate Price Quandary: Issues and Way forward (No. 2022: 72). Pakistan Institute of Development Economics.