



Webinar

Brief 36: 2021

Real Estate Regulation and Development: A case of Gated Housing in Pakistan





Real Estate Regulation and Development: A case of gated housing in Pakistan

Friday, April 16, 2021 at 03:00 PM (PST)



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Objectives:

- Real Estate Development is an important part of economic activity and wealth creation the world over.
- Why is the real estate market so fragmented and underdeveloped?
- Real Estate is the land and man-made changes on it, including residential, commercial, industrial and special use.
- Why is real estate development confined to 'plots' and 'houses' in Pakistan? What is the regulatory framework for the sector?
- Is this sector over-regulated or not regulated at all?
- What are the processes that a Real Estate Developer has to go through in Pakistan in doing his/her business?
- How does this sector finance itself and why REITs are not common in Pakistan?

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Preamble

In recent years, gated communities have grown in popularity in Pakistan, with a rise in the number of such communities. According to the Federal Board of Revenue, the real estate industry in Pakistan is worth about 700 billion dollars, and it accounts for nearly 2% of Pakistan's total GDP. It not only creates a large number of direct jobs but also stimulates demand in over 250 different industries. In 2015-16, construction in gated communities increased by 15 to 20%, with 20 to 25 large projects completed during that period. Despite its rapid growth and strong job demand, the real estate market is still being under-researched and unexplored.

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- Why is real estate development confined to 'plots' and 'houses' in Pakistan?
- What is the regulatory framework for the sector?
- Is this sector over-regulated or not regulated at all?
- What are the processes that a Real Estate Developer has to go through in Pakistan in doing his/her business?
- How does this sector finance itself and why REITs are not common in Pakistan?
- How the rise in digital portals reduces the cost of transaction, bridges information gaps and makes the overall process of real estate dealing transparently?

Key Messages

- Pakistan has the potential to become a top real estate investment destination due to its high housing demand. According to conservative figures, the housing backlog stands at 9 million units, and it is growing at a rate of 300,000 units per year due to unmet demand.
- The real estate market has the potential to be the country's largest growth driver. Glass manufacturing, wood, furniture, steel, plastics, paint, electricity cables, cement, electronics, and other industries are all directly related to real estate. As a result, an increase in construction activity would inevitably result in more jobs and economic activity.

Gated Communities

- In recent years there has been a rise in gated communities. Typically, a gated community is a set-up that offers a cohesive social life coupled with a quality residential experience. It encompasses various independent residential properties enclosed within a boundary.
- Gated communities are famous for a safe and secure environment, comfort and luxury, good management, opportunities for social interaction, and higher property values.

Development of Gated Communities & Delivery time

- It takes years and years of development in the gated community and delivery to the general public. It all starts with land and real estate revolves around land.
- The land acquisition process is complex because one cannot get land on hard cash. Future contracts are associated with land acquisition, and most of the time complications are associated with the involvement of future contracts and the problem goes into litigation, which itself is a complex phenomenon.
- What happens is that whenever a developer launches a housing scheme, they never have enough investment to buy a large enough tract of land to impress possible buyers.

- They go on a marketing campaign in which they announce a new housing scheme, often getting celebrity endorsement. They offer the public to reserve their booking in the new society at a cheaper rate. They will get enough capital from these bookings, which enables them to purchase the required land for the project. The developer always told the initial investors that their plots are still in the development stage and will be updated once the technical aspects of mapping and zoning are figured out. The truth is that the land has not yet been purchased by the real estate developer.
- In developed countries, real estate projects are delivered in a specified time while in Pakistan it takes decades to develop a project. Why is such a period required in building such a project? Is it a scam? Is it a tactic of cartels for monetary benefits?
 - Panelists respond that developers launch a project on financial planning and financial planning is based on equity and sales proceeds. Buyers do not comply with the terms and conditions signed on day one of the project. The buyer signs the agreement to sell but in the end, they are unable to pay the installments fee. Businesses run on planning and anything which maneuvers the proposed planning cause damage to the business.
- The real estate industry is largely unregulated, and those who engage in frivolous lawsuits face few consequences. Real estate-related court proceedings take a long time to resolve. People are misinformed, and they heed the advice of real estate agents who are inexperienced. Oftentimes, worried government officials say that some housing societies are illegal years after residents have purchased plots and constructed structures.
- It is essential to update the laws. Real estate education should include certifications and degrees. Real estate cases should be settled quickly, and anyone who engages in frivolous lawsuits should be disciplined. To provide deterrence, those who have been wronged should be compensated by the former. The government's plans to establish special tribunals, as stated above, is a positive step, but more is needed to deter property fraud at the outset. This can be accomplished by establishing a team of lawyers who can screen assets for sale to ensure that they are free of any violations or anomalies.

Escrow Account

- The escrow account in our financial system ensures that funds that are collected for development purposes should be used for that particular purpose. The common practice observed in Pakistan, that whenever massive funds are collected from the general public in the name of real estate development their focus starts to shift to other activities, in short, they are used for personal gains. Moreover, the complex and lengthy procedure of the court system provides a kind of facilitation to cartels to deceive the general public funds.
- We have the demand out there, we have the spaces out there, but the people who seem to be delivering the solution are not the one exactly the ones who should be doing it.
- FBR's stringent regulations on banking transactions for non-filers, high property tax charges, deter investors from putting their money into the market, due to the lack of incentives for investors, a prohibition on non-filers for purchasing a property value over \$5 million without registering in the Federal Board Revenue (FBR).

Conclusion

There is no doubt the real estate sector can play a game-changer role in boosting Pakistan's economy, but there is a long way to cover a long journey to see the real estate market at its glory. The current rut that the real estate sector in Pakistan is a strange mix of political instability, tax policy confusion, and uncertainty in economic and financial policies. A near-complete absence of incentives for the investors followed by the board placing strict checks on the banking transactions of non-filers, levying higher taxes on transfers of property, and actively discouraging investors to put their money in the sector. The government is introducing new laws and regulations for the real estate sector but the problem is that they only paper-based no implementation is seen so far.



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