

## *Chapter 3*

### **Evaluation of Naya Pakistan Housing**

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#### **3.1. INTRODUCTION AND BACKGROUND**

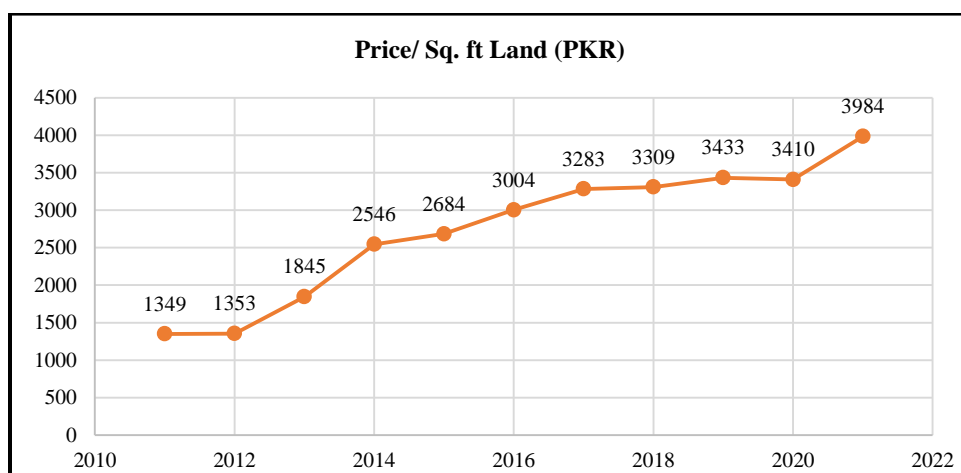
The seriousness of the housing crisis in Pakistan can be judged by the fact that successive estimates put the backlog in housing at 9 million units, increasing by 300,000 units annually due to unmet demand. Sixty-two percent of this need is for low-income groups. A huge gap between the supply and demand for housing is evident in urban areas around the world. Because of the uncontrolled housing crisis, many families are forced to live in extreme conditions with unhealthy and unsafe homes<sup>1</sup>. Of the nearly 208 million people in the country, more than a third live in 20.01 million units in urban areas and the rest from 12.19 million in rural areas. A study on Pakistan shows that housing shortages around 10 million units, about half of which are in urban areas, are one of the highest in South Asia.<sup>2</sup>

By 2030, more than half of Pakistan's estimated 250 million people are expected to live in cities compared to 36 percent now, according to the United Nations. And so, the demand for accommodation is expected to grow exponentially. This shortage is a problem if it is not always met and is a great opportunity for investors to enter this challenge and develop affordable housing for low-income people. The housing shortages in Pakistan require an investment of \$ 250 billion. "Government must provide solutions, in terms of infrastructure and urban planning, land reform, policy resources and incentives for mixed-use development, and the removal of regulatory barriers. The private sector - builders, developers, building solution providers, banks, leasing companies, and finance - will have to consolidate their resources."<sup>3</sup>

The Naya Pakistan Housing & Development Authority (NAPHDA) has been established for the purpose of planning, construction managing programs and development projects. It also includes housing related facilities, other support structures for the purpose of providing nonprofit and other repairs, or establishing and maintaining infrastructure, roads etc. and performing other community and municipal programs.

In the official forms, there are three installment plans under the system. Applicants can pay Rs5,000 per month to Rs10,000 in the lowest category; Rs10,001 to Rs15,000 in the medium term and between Rs15,001 to Rs20,000 in the top category<sup>3</sup>. Let's do some quick math. If the house costs Rs3.5 million and the monthly installment the buyer will pay Rs18,000 (and you can also assume the household was able to borrow from the House Building Finance Corporation (HBFC) under its "Ghar Pakistan" program which offers a loan of 11 percent (for 20 years), the monthly subsidy that the government should provide to this house is about Rs10,000. Now the government wants to build 300,000 houses in Pakistani cities in one year. The total annual funding for the above example amounts to Rs36 billion! Does the government have this kind of fiscal space?

Apart from that, the land and construction cost has increasing over the past few years. The single story 5 Marla house has approximately a covered area of 910 sq. ft. The house has one kitchen, two bedrooms with attached bathrooms. The grey structure cost is 1,445/sq. ft and the land cost is 3,984/sq. ft. The cost of a 5 Marla unfinished single-story house comes to around 6.3 million. Complete purchase at this price is beyond the reach of majority of the population. The price of land increased by around 195.3 percent from march-2011 to march-2021<sup>1</sup>. The graph below shows the price of land/ Sq. ft for the past 10 years.



Source: www.zameen.com.

### 3.2. NEED FOR REFORMS AND ITS PROBABLE EFFECTS UPON THE ECONOMY

Housing affordability and access to adequate land is a major problem in Pakistan. Total population of Pakistan is about 207.7 million with number of households 32.2 million (Pakistan Bureau of Statistics, 2017). Every year, the shortage of housing has been rapidly increasing by 270,000 housing units in Pakistan. At the end of 2018, the housing backlog reached 10 million which was 7.5 million<sup>4</sup>. Two-third of the population is not able to afford housing without financial support and subsidy<sup>5</sup>. The comparison of the housing demand in the world is given in Table 1.

Table 1

*Comparison of Annual Housing Demand in Selected Asian Countries.*

Country	Annual Housing Demand
Pakistan	10 million
India	40 million
Sri Lanka	Between 50,000 and 100,000
Bangladesh	659,000
Indonesia	735,000
Philippines	3.75 million

Source: Un-Habitat, 2011.

The World Bank estimates that the total national housing shortage is more than 10 million units, with a gap of 350,000 units a year. The growing deficit is estimated to rise to 400,000 units. Therefore, the Naya Pakistan Housing Project not only improve the housing shortage in the country but also improve the unemployment because there are 30 to 40 industries directly or indirectly connected with the housing expansion and construction. According to World Bank estimate the 100,000-housing unit increase in one year contributes up to 2pc of GDP. In addition, the provision of housing to the people greatly reduces the cost of health care and other economic and social costs imposed by urban slums. The World Bank estimates that about 47 percent of urban slum dwellers (katchi abadis) have limited access to public infrastructure and sanitation services. The immediate cost of public health, and the long-term cost of social welfare, about half of a city living in homeless homes is staggering. Housing stock improvement is a sensible mid-term macroeconomics tool.<sup>6</sup>

The housing crisis is so huge that it cannot be resolved through conventional means. What is required is to support the densification process by developing urban design plans for those areas where it is taking place and providing technical and design advice to the builders along with short term loan packages. It would also require containing speculation on land and built assets. For this a heavy non utilisation fee on land and properties would have to be imposed. To conserve land an urban land ceiling act would also have to be enacted to limit land holdings per individual and a minimum density determined for all housing, including elite projects. In addition, laws giving the state the power to acquire land for low-income housing at appropriate locations will be required. There is also a need of mortgage financing for lower middle-income group and daily wage earners to ensure the availability of housing for those groups.

The success of this major project will require well-planned long-term planning, as well as a strong financial model. Also, the inefficiencies in the real estate market will need to be addressed. This will keep the affordable housing stock growing or over time. Such needed improvements include:

- (1) Land reform
- (2) Land redistribution and land use laws
- (3) Reduce market speculation
- (4) Documenting the real estate sector
- (5) Establish a real estate regulatory authority.
- (6) An effective governance system is required

### **3.3. MAIN FEATURES OF THE NAYA PAKISTAN HOUSING PROGRAM**

The main objective of the Housing Task Force (HTF) is the establishment of a full-fledged housing authority under the name of the Naya Pakistan Housing & Development Authority (NAPHDA). The Authority will be an independent, autonomous body, assisted by an independent Executive Board, under the supervision of the Prime Minister of Pakistan. The aim of the current government is to provide 50 lacs homes to the Pakistan over the next five years. There are more than 70 related industries are linked with the housing because housing is such a huge labour-intensive sector, simultaneously creating jobs, will be the real foundation, where government can lay the groundwork to successfully build and produce houses for the people which is not common throughout

the country<sup>7</sup>. The Naya Pakistan Housing & Development Authority is also working in federal and provincial level with their relevant housing department. The detail of their respective governing body at province level is given below in the Table 2:

Table 2

*Governing Body of Naya Pakistan Housing at Federal and Province level*

Province	Housing Department
Federal	Federal Government Employees Housing Authority (FGEHA)
Punjab	Punjab Housing and Town Planning Agency (PHATA)
Sindh	Under progress
KPK	Provincial Housing Authority Khyber Pakhtunkhwa
Baluchistan	Provincial setup for Naya Pakistan Housing is yet to be established.
Gilgit Baltistan	Provincial setup for Naya Pakistan Housing is yet to be established.
AJK	Physical Planning and Housing Department

Source: Naya Pakistan Housing & Development Authority (NAPHDA) [www.naphda.gov.pk](http://www.naphda.gov.pk)

Currently the country's urgent need for 0.1 million (ten lacs) housing units a year, or 50 lacs units in five years. Therefore, the government's agenda is to improve the supply of the required number of houses in urban and rural areas<sup>7</sup>. The Government's housing policy aims to meet the goal of 10 lacs houses next year as follows:

- 4 lacs/year in the Rural Areas,
- 2 lacs/year in Peri-Urban areas under Social Housing Schemes, and
- 4 lacs/year housing units in the Urban Areas.

Policymakers see the introduction of high-rise towers in urban areas, to allocate higher land costs to more low-cost units that will keep units accessible. This approach is largely covered in economic and social literature. One of the lessons from other experiences is that the accumulation of low-cost units in high-rise areas (such as council houses in the UK, or "projects" in the US) is leading to ghettoisation, leading to intensification of poverty and crime in the area. In addition, low-income households who do not have the income to dispose of to contribute to social costs, resulting in the rapid collapse of high-rise housing / building schemes with only low units. Commercial banks will ensure that they are committed to lending twenty-units to those communities. A strong eviction/foreclosure framework will not influence the bank otherwise.

### 3.4. PROGRESS TILL NOW

The government's current housing policy is a combination of the housing program in Naya Pakistan and State Bank's 'low-income housing policy', launched in July 2018. Through this program, the government aims to build 5 million low-income housing catering to the demand of low-income groups. The establishment of the Naya Pakistan Housing Authority was planned earlier this year, but no final steps have been taken yet<sup>6</sup>. In the first phase of the project, in Islamabad, 25,000 apartments will be built for the federal government workers, the remaining 110,000 apartments will be built in Baluchistan including the fishing community in Gwadar. The second phase of registration for the Naya Pakistan Housing Project was announced on 15 July 2019. According to the

Premier, the registration process will assist the relevant authorities to identify community needs and implement housing projects in areas where they are needed. The government initially start the Naya Pakistan Housing project in major cities of the country. Following are the housing policies for each province (Table 3).

Table 3

*Province Wise Progress of Naya Pakistan Housing*

Province	Progress
Federal	FGEHA has launched a housing project in Islamabad for Govt employees.
Punjab	Projects been announced in cities including Okara, Lodhran, Bahawalnagar, Faisalabad, Sialkot, Chistian, Chiniot and Jhelum.
Sindh	The housing scheme is under progress in the Sindh province.
KPK	Land identification process has been initiated along with review of its acquisition process for the housing program.
Baluchistan	A few housing projects have been announced by Federal Government Employees Housing Authority (FGEHA).
Gilgit Baltistan	Some housing projects has been announced by FGEHA.
AJK	Naya Pakistan Housing has announced in Rawalakot and Plundri

*Source:* Naya Pakistan Housing & Development Authority (NAPHDA) [www.naphda.gov.pk](http://www.naphda.gov.pk)

### 3.5. WEAKNESSES AND HINDRANCES

First, it underscores the government’s concerns about the slowdown in housing loans, and that those who wish to become homeowners face difficulties in obtaining a bank loan. Second, it shows that the central bank can now put more pressure on commercial banks that do not want to speed up the processing of loan applications. In doing so, banks will be forced to borrow risky loans even though central bank officials have repeatedly said that the State Bank will only provide loans to expand the housing industry and that decisions on credit risk will be taken by lenders. However, commercial banks are reluctant to offer home loans as they believe that expanding the housing industry is not possible without strict foreclosure law that allows them to recover property in the case of reimbursement.

The government has repeatedly promised to improve the eviction laws but has not done anything about it. Third, it means that the government can ask the NBP to pursue a more open collateral policy to make up for the unwillingness of private banks. That would be a disaster for the bank balance. We still remember the yellow cab system introduced by the government in the 1990s.

All project failures may have policy errors or implementation failures. It has always been a myth that so far in Pakistan it was. In any case, policymakers or the implementation team did not specify their position rather than always the failure is attributed to one reason or another. No specific tasks were evaluated for any group and what were the consequences or failure of implementation or policy failure (tasks are performed as instructed but the results do not promise to be based on flawed policy).

Housing development is highly dependent on a strong mortgage market, which is not the case here at all. Many countries have already overcome their housing shortages by doing so by creating a mortgage industry and providing the common people with a wide range of loans to buy or build a home. In terms of housing finance, the situation in Pakistan is much worse, with Pakistan standing lower in terms of Mortgage to GDP Ratio compared to the regional and global situation. Outstanding Financial Debts-Mortgages (M/D) represents a grim picture of Pakistan as a stand-alone or compared to other countries in the region. The rate in Pakistan is less than 1 percent. The outstanding mortgage debt has declined in Pakistan over the past decade<sup>9</sup>. While in India it is about 10 percent, Bangladesh is 5 percent; and in other countries in the region such as Malaysia, Thailand, and Indonesia the rates are constantly rising, reflecting significant housing finance activities<sup>9</sup>. However, in the case of Pakistan even 70 years after the country was born, the House Building finance Corporation (HBFC) is the only housing finance company. It is very disturbing to see the role and function of HBFC in the decline over the years. The shares of commercial real estate banks are very small compared to commercial banks around the world. Although the State Bank has taken other important steps to encourage banks to expand their house financing to support the government's housing and construction industry, banks remain reluctant. The housing program will not start in a big way until we have a mortgage industry. That will always be a dream if the government does not tighten refunds to protect banks from potential losses.

### **3.6. SUGGESTIONS FOR IMPROVEMENT**

There are two key policy measures that can greatly enhance the current proposed policy interventions for Naya Pakistan Housing & Development Authority (NAPHDA). This is a transformation of the city's development, as well as a strong mortgage policy for middle-income families. In general, to achieve the outstanding goals of the NAPHDA, changes need to ensure two key outcomes. The first is the use of high-rise building as a driver of lower prices and increased general housing availability. The second is the prevention of intensifying poverty traps through ill-conceived low-income units that worsen the existing divides.

#### **— City Development Reforms**

From a regulatory and legal point of view, this is a very difficult nut to crack. City management is divided. For example, Karachi's planning and municipal plan consists of twenty federal, provincial, and local agencies with different legal and administrative structures, as well as minimal institutional coordination. Local governments may exist but do not have the authority to make their decisions binding to various agencies and authorities. This fragile institutional alignment among agencies makes city management ineffective when it comes to trying to create space for land development. For example, about 90 percent of urban land in Karachi is under public ownership, but the authorities are often reluctant or unable to make land available for development. Under the NAPHDA, the current planning regime prefers low to medium development. Karachi and Lahore are one of the most densely populated cities in the world. Geographical segregation does not allow for higher upheavals that have led to an increase in low population density. This limitation of control over the provision of residential land has

also resulted in an increase in the price of available land. To address this, the government needs to legislate and empower local governments to bring in other structures designed for integrated city planning, to acquire and/or release unutilised or underutilised lands for development and rezone it to allow high-rise developments. Housing is a provincial issue the federal government will need to work closely to ensure that government agencies are align with the provincial and local government officials. In addition, where possible, government policy should only allow high-rise units. With so much housing shortages, and increasing urbanisation, the government will not be able to afford more low-rise units.

#### — Mortgage Policy for Middle-Income Group

The middle-income group has households that earn more than the low-income group and work in the formal sector such as doctors, university professors, professionals working for companies. Such lenders have the capacity to provide sufficient proof of their current income, future income potential and net worth to qualify for a mortgage. Currently, the housing shortages is estimated at 10 million units. It can be assumed that middle-income group makes up the largest percentage affected by deficit. However, both SBP Policy and NAPHDA have not provided any indication of an interest in this vital segment and are thus silent on any kind of bespoke policy framework for middle-income families.

### **3.7. POLICY RECOMMENDATIONS FOR NAYA PAKISTAN HOUSING**

- The housing crisis is so huge that it cannot be resolved through conventional means. What is required is to support the densification process by developing urban design plans for those areas where it is taking place and providing technical and design advice to the builders along with short term loan packages.
- It would also require containing speculation on land and built assets. For this a heavy non utilisation fee on land and properties would have to be imposed.
- To conserve land an urban land ceiling act would also have to be enacted to limit land holdings per individual and a minimum density determined for all housing, including elite projects.
- Laws giving the state the power to acquire land for low-income housing at appropriate locations will be required.
- There is also a need of mortgage financing for lower middle-income group and daily wage earners to ensure the availability of housing for those groups.
- High rise buildings are cost efficient so it is highly recommended to consider this option as well.
- Government may sell unused commercial areas and used that money on the construction of new and cheap housing units for people to fulfil the dream of Naya Pakistan housing.

In the absence of above recommendation steps, it is more than possible that large scale housing projects will either not take place or will end up being victims of massive speculation and causing further environmental damage as has happened many times before and in many countries.

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