Chapter 5

Prime Minister's Construction Package—An Evaluation

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5.1. INTRODUCTION

Acting on the PTI's election manifesto of building 5 million houses, the Prime Minister of Pakistan announced an incentive package for the construction sector in April 2020. This package focused on providing tax cuts, subsidies, and reducing the regulatory burden for creating a conducive environment for construction activities. Since construction in Pakistan is a labour-intensive sector, it was hoped that the package would help the PTI government, albeit partly, deliver its other election promise of creating 10 million jobs. The ancillary by-products were livelihood opportunities and affordable housing for the poor, especially during the COVID-19 pandemic. We discuss the construction package below:

5.2. THE SALIENT FEATURES OF THE PRIME MINISTER'S CONSTRUCTION PACKAGE[58]

The Ordinance was promulgated as the Tax Laws (Amendment) Ordinance 2020 by the President of Pakistan on April 17, 2020, later as Finance Act 2020.

(a) The ordinance grants the construction sector the status of an industry.

(b) The ordinance sets a fixed tax regime for builders and developers based on the project area. For builders and developers who choose this scheme, the tax will be computed on a project-to-project basis for (1) a new project to be completed by 30 September 2022; (2) an ongoing project to be completed by 30th September 2022.[59] The estimated lifetime of a project not to exceed two and half years.[60] The dates were extended till 30th September 2023 through the Income Tax (Amendment) Ordinance, 2021.

(c) There will be an exemption from the screening of source of Income as per Section 111 of Income Tax Ordinance of 2001 for capital invested in land or a building. The builders and developers announcing a new project, within

[58]Based on the Tax Laws (Amendment) Ordinance 2020, the Income Tax (Amendment) Ordinance 2021, and analysis by Ferguson and Co (2020) and KPMG & Co (2020).

[59]The construction package and amnesty scheme were later extended through the Income Tax (amendment) ordinance 2021. The tax amnesty (exemption from screening of sources of Income (section 111 of Income Tax Ordinance of 2001) was extended till June 30, 2021. The time for availing fixed tax regime was also extended to December 31, 2021.

[60]The estimated lifetime has been extended to three and half years in the Income Tax (amendment) ordinance 2021 to three and half years.

parameters of this package incentive, shall not be examined for the sources of their wealth.[61]

(d) The builder or developer, willing to avail this scheme, are required to

  (i) open a new bank account and transfer/deposit money into it before 31st December 2020 where investment is in the form of money or
  (ii) have the title deed of the land in case of investment in the form of land at the time of commencement of the Tax Laws (Amendment) Ordinance. 2020. In the case of investment in land, the construction activity should initiate before 31st December 2020[62] and finish before 30th September 2022.

(e) If the investment is made by a company or an association of persons (AOP), such a company or AOP must be a single object (builder or developer) and must be registered under the Companies Act 2017 after the commencement of the Tax Laws (Amendment) Ordinance. 2020 and or on before 31st December 2020. Conditions for investments are as detailed above.
(f) A person making investments under the above clause shall submit a prescribed form on the IRIS portal by the 30th day of June 2021.
(g) The money or land invested shall only be used for the said project.
(h) Exemption from the screening of income will also apply to

  (iii) the first time purchaser of a building or a unit of a building given that (i) for a new project, full payment is made to builder through a crossed banking instrument before 31st March 2023, (ii) full or balanced amount is paid to developers through a crossed banking instrument before 31st March 2023 for an existing incomplete project.
  (iv) The buyer of a plot who intends to construct a building on it given (i) the purchase and full payment is made through a crossed banking instrument on or before 30th June 2021, (ii) construction is commenced on or before 31st December 2021 and completed on or before 30th September 2023, and the person registers with the Federal Board of Revenue (FBR) through its web portal.

(i) The builders/developers must obtain from relevant authorities the total land area, covered area, and saleable area in square feet (or yard) of the project, any certificate to this effect, and submit the certificate to the FBR.
(j) There will be a mortgage subsidy of PKR 30 billion for the first 100,000 houses being built for the poor.
(k) In case of investment under the Naya Pakistan Low-Cost Housing Scheme, 90 percent of tax payable on the income, profits, and gains of projects of low-cost housing approved by Naya Pakistan Housing and Development Authority (NPHDA) shall be exempted for investors.

[61] Section 111 of the Ordinance empowers the tax authorities to require any person to explain the sources of his investments or assets, etc. (Ferguson and Co, 2020)

[62] This deadline for registration with the FBR as well as initiation of construction on land was extended up to June 30, 2021, in the Income Tax (amendment) Ordinance 2021. The deadline to complete projects registered with the FBR was extended till September 30, 2023. Further, the last date for the purchase of house and plot has been extended from September 30, 2022, to March 30, 2023.

(l) Builders/developers covered under the special regime will be exempted from the withholding tax (section 153 of the ordinance) on purchase of material (except steel and cement) and of services (provided by non-corporate service providers).

(m) Compromising section 111 of the Income Tax Ordinance of 2001 on the concealment of wealth, Punjab and Khyber Pakhtunkhwa provinces, and Islamabad Capital Territory have introduced amendments in the relevant tax writs.[63]

(n) Provincial taxes have been slashed. Transaction duties amounting to around 8-9 percent, and services cost about 8 percent were reduced to 1 percent stamp duties and eased the rest[64].

(o) Aimed at facilitating the construction industry, this package has furthered the regulations through the Naya Pakistan Housing Program (NPHP) and authorised the establishment of the Construction Industry Development Board (CIBD).

(p) A Real Estate Regulatory Authority to be set up to provide a one-window facility, online approval of permits, and bringing housing-related departments under one roof.

The current package is also seen as an attempt to provide amnesty to both buyers and sellers to whiten their money. For example, it requires, and we quote:

(1) All money to be invested in projects under this schedule for which an explanation of source is not available with the person making the investment shall be put in a designated bank account of the person on or before 31s` day of December 2020 and subsequently be drawn for investment expenses.

(2) All money to be invested in the first purchase of such projects under this schedule for which an explanation of source is not available with the person making the investment shall be put in a designated bank account of the person on or before the 30th day of September 2022 and be subsequently paid to the owner of the project through a crossed bank cheque.

5.3. WILL THE PACKAGE SPUR CONSTRUCTION?

The construction package promises to address housing deficiency, provide affordable housing, generate economic activity, and provide employment. We evaluate this program on two dimensions, namely: Relevance and Effectiveness. We have also conducted a small perception survey to gauge the response of the end-users.

5.4. RELEVANCE OF THE P. M. CONSTRUCTION PACKAGE

The package seems timely and relevant for ameliorating many ailments that plague Pakistan's housing and construction sector. The construction sector had earlier faced a contraction of activities due to the government's initial stance on the real estate sector

[63]KP Finance Act, 2010 through a Provincial Ordinance exempts the property value from CVT, be it commercial or industrial, multi-story plazas etc. Also, through an amendment made to Schedule 1's S.N. 18 of Khyber Pakhtunkhwa Act of 1899. The KP Government also notified through 709-11 to grant exemption to Construction and affiliated industries.

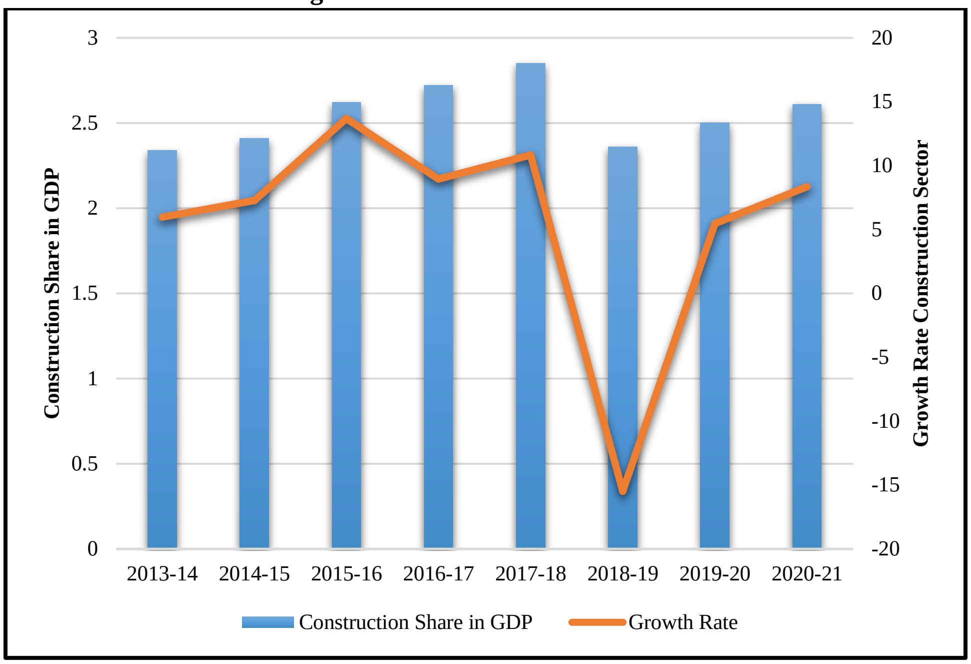
[64]Punjab through its Stamp Duty (Amendment) Ordinance has slashed the stamp duty on immovable property to 1 percent in addition to Sales tax exemption on construction services as per notification dated April 2, 2020.

and a failed reform effort in 2018 that had created a negative sentiment in the market.[65] Below we look at the construction sector and the housing market dynamics to examine the incentive structure and the factors impeding the demand and supply side of the market, which paved way for an incentive package for the construction sector with a focus on housing for the poor.

5.5. THE CONSTRUCTION SECTOR IN PAKISTAN

Construction is a leading industry the world over. McKinsey Global Institute (2017) had predicted that construction would add 13 percent to the world's GDP and employ 7 percent of the workforce globally. In Pakistan, the sector added PKR 919 billion to the GDP in the Financial Year 2021. Its contribution to GDP stands about 2.7 percent annually,[66] which is small compared to the neighbouring countries India and China, where the construction sectors are growing rapidly and contributing a more significant share to GDP[67].

Fig. 1. Construction Share in GDP



Source: Pakistan Economic Survey (PES) (2020-21).

Despite its low weightage in the gross domestic product, it absorbs a relatively large percentage of the labour force.

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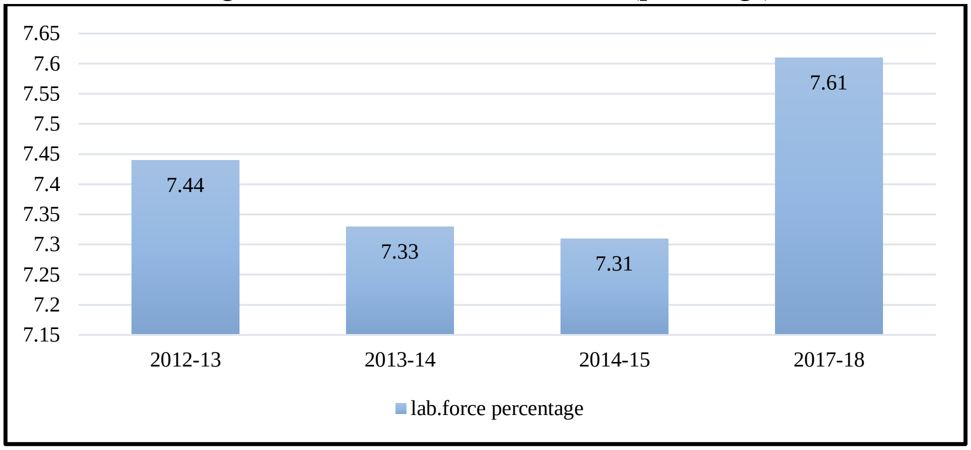
[65] See section 5.6.1 below

[66] On average, construction has contributed about 2.5 percent to GDP over the last 20 years, which pales in comparison to its performance in the early 1990s (4.2 percent) (Islam, 2006, Pakistan Economic Survey 17-18).

[67] Construction sector contributes 8.2 percent to India's GDP and 6.8 percent to China's GDP (Statista.com, accessed on June 19, 2020)

Fig. 2. Labour Force in Construction (percentage)



Source: PES (2020-21).

It is also a sector that is highly undocumented. Anecdotal evidence suggests that its contribution to GDP is much higher than what official numbers show[68]. The Association of Builders and Developers [ABAD] suggests that about PKR 1.1 trillion is stuck in litigation relating to construction and housing[69]. Fitch Solution, one of the top-rated credit rating agency in the world, predicts the market value of the construction sector in Pakistan to be around PKR 2,705 billion by 2028[70]. The sector has a high multiplier effect due to the backward and forward linkages in the economy (Khan 2008). Estimates put the contribution of construction to GDP at 10 percent after accounting for the multiplier effects (Aurora 2020). Table (2) indicates the value chain in the construction sector. The sector has linkages with more than 40 industries.

Table 5.1

Construction Sector Value Chain in Pakistan

Value Chain	Complementing Sub-Industries
Land Acquisition (both government and Private)	Real Estate, State, Legal Counsel, Bank,
Architecture, planning permissions	Consulting and legal costs can be increased by too many permissions
Contracting	Consultants, Labour, Engineers,
Raw Material & Procurement	Cement, Steel, Glass, Stone, Retail, Plastic, Gas, Electronics
Project management and construction	M&E labour managers
On-site Construction	Labour, Engineers, Architects
Marketing & Sale	Advertising Agencies
Use and employment	Rental agencies, offices, homes, employment spinoffs

Source: Author's own.

[68] As per the World bank, real estate holds 60-70 percent of the total wealth of the country. This estimate puts the value of real estate between $300 -400 million (Profit, 2020).

[69] https://invest.gov.pk/housing-and-construction

[70] Ibid.

Public Sector Development Programme (PSDP) is the main driver of the construction sector, with most revenues coming from government contracts.[71] CPEC has also given boost to construction activities since its onset. Construction of residential projects and houses makes a sizable part of the industry (PACRA, 2021).

The market structure of construction is highly skewed. While the high end of the spectrum is dominated by the government and a few big private firms, the other end is occupied by small private constructors (called contractors or '*thekedar'* in local vernacular). Most of the prominent builders—or developers, as they're called, are either public sector contractors or work on government contracts. FWO, NLC, NHA, WAPDA, NESPAK are heavily invested in public sector work and are public-sector owned. The PSDP remains focused on brick and mortar and offers these large players large portions of public sector work (PIDE Policy viewpoint 11). The most prominent private players—DESCON, Arif Habib—are also taking up the large public sector projects; hence the private sector construction development remains limited. The private sector projects—Bahria, DHA, Eden, Paradise—remain primarily about the construction of single-family houses. This has rendered the construction a lopsided affair in Pakistan mainly consisting of either single-family houses or large infrastructure development (roads, underpasses, flyovers, and bridges). Its grave shortcomings are delineated in the PIDE Policy Viewpoints (12, 16).

The construction sector also suffers from lack of professionalism, planning, qualified workforce, defective and corrupt contracting procedures, time and cost overruns, lack of insurance, inadequate financial resources, lack of equipment (Mir, Tanvir, and Durrani, 2007), low productivity, and lack of innovation (McKinsey Global Institute, 2017), which inhibit the sector from realising its true growth potential.[72]

5.6. REGULATORY BURDEN AND POLICY FAILURES

Pakistan's construction sector is heavily regulated and controlled (PIDE PV, 12). The procedures and permissions required for construction are extensive and complex. For Karachi, before a builder can start work, about 20 no-objection certificates are needed from several departments (the Sindh Building Control Authority, Karachi Development Authority and Master Plan Department, CAA, SSGC, KE, KW&SB, PAF). The simple process of getting a NOC can take up to a year (Samaa, 2020). The strict regulations for site development, along with the absence of land records and titles deeds, render obtaining a construction permit tedious and time-consuming (SBP 1st Quarterly Report 2019).

The regulatory structure is not well defined either. A developer faces different regulators, spanning across different tiers of government and various Development Authorities. Each Development Authority has its own set of rules and procedures. According to Mr. Arif Habib, regulators such as Sindh Building Control Authority (SBCA) and Lahore Development Authority (LDA) have considerable gaps in regulation standards, quality of human resources, and policies. He terms construction business as

[71] National Highway Authority (NHA) has a portfolio of 40 projects with PKR 179 billion reserved for it in the PSDP outlay (FY21).

[72] See Annexure 1 for a SWOT analysis of the construction sector by PACRA.

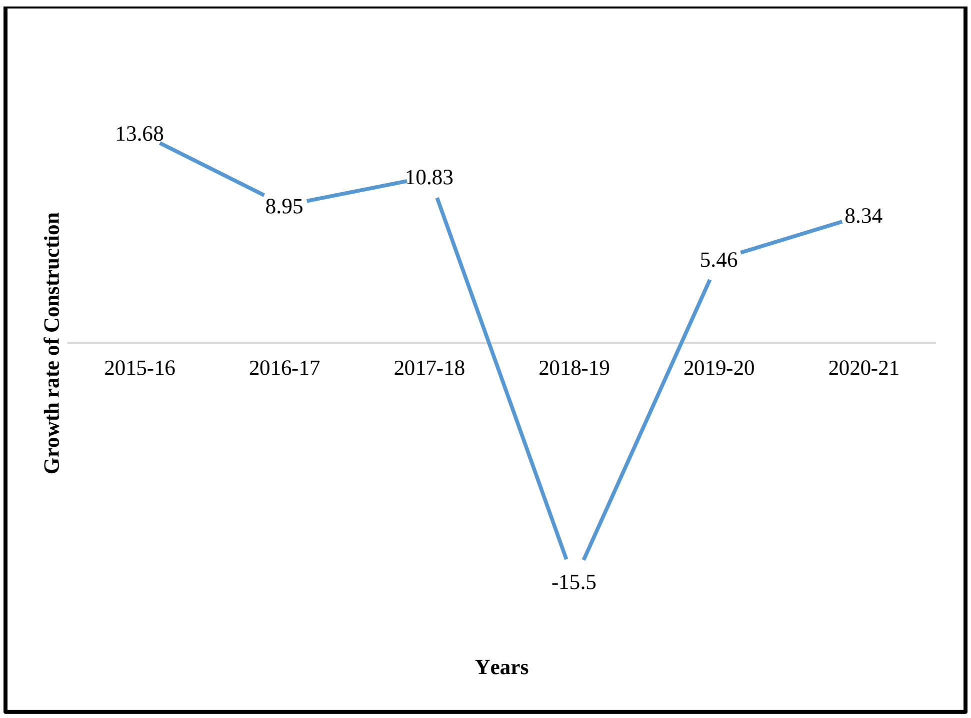
one that must fulfill conditions of town planning, engineering, construction, transport, utilities, legal, and environment. Regulators do not have the capacity to view the sector properly and in its entirety (PIDE Webinar on Construction, 2020).

5.6.1. Policy Failure - The Finance Act 2018

In its earlier days, the incumbent government repeatedly asserted that real estate was a cesspool of black money and had to be 'documented' into the formal economy. Numerous measures were introduced in the Finance Act 2018 to counter the under-documentation in the real estate sector and tax avoidance. For instance, it imposed a ban on the purchase of property above PKR 5 million for the non-filers; initiation of legal proceedings against any such transactions that are understated for either concealment of the source of income or tax avoidance; and giving the government the power to purchase the property in question in case the understatement is proven.

This stance created a negative sentiment in the market as transactions dwindled and the businessmen scaled back their works. The construction industry virtually came to a standstill. As per Zameen.com (the most prominent online real estate portal), the construction activity had reduced significantly. 'Austerity' had aggravated the unemployment in the country, and no new projects were inaugurated. The State Bank of Pakistan had raised the policy rate to 13.75, which further dampened the willingness to take loans, invest, and construct.

Fig. 3. Policy Failure: Contraction in Construction Activities after the Finance Act 2018

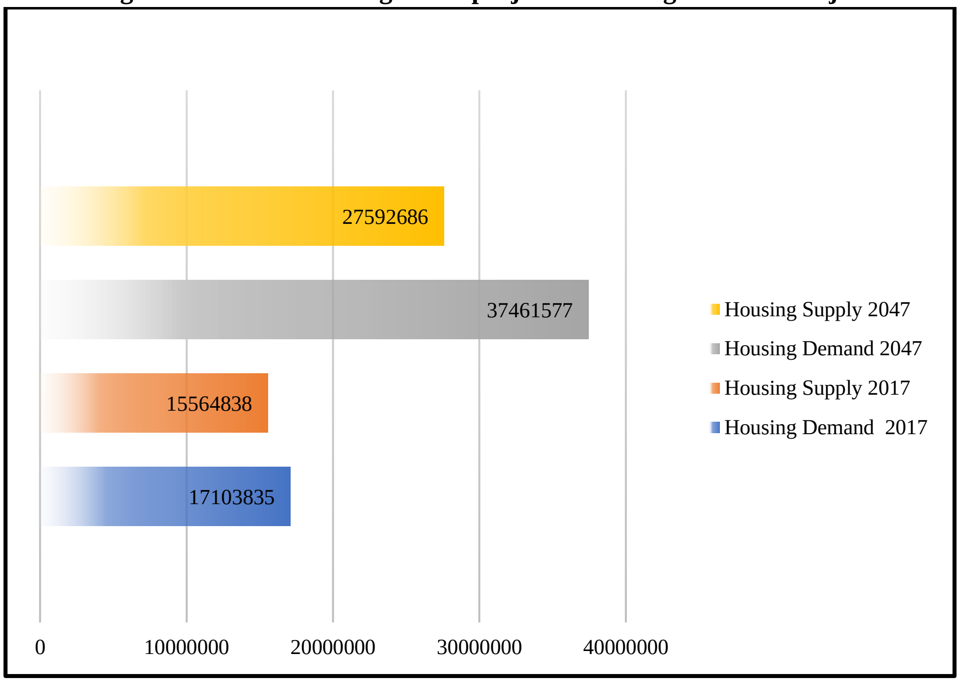


Source: PES (2020-21).

5.7. HOUSING SHORTAGE AND THE DYSFUNCTIONAL HOUSING MARKET IN PAKISTAN

Pakistan also faces a serious shortage of housing. The existing stock of about 32 million houses leaves the country short of between 10-12 million houses[73]. ABAD estimates that 0.25 -0.3 million houses are constructed annually against a demand of 0.7 million houses, which leaves an annual gap of 400,000 housing units. The population growth and increasing trend of urbanisation[74] will further require 360,000 units annually in the next two decades (Minhas, 2021).

Fig. 4. Estimated Shortage 2017 projected Shortage 2047 in Punjab



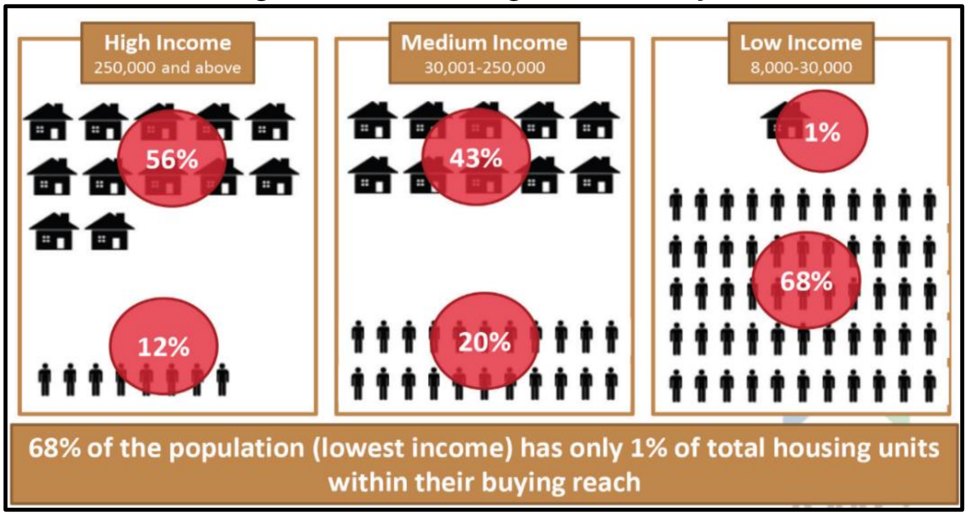
Urban Unit (2019).

The housing deficit will exacerbate if not tackled on an urgent basis. This shortage implies that about one-third of the population lives with inadequate housing (SBP 2019). For Punjab alone, the housing deficit is expected to increase to about 10 million units by 2047 (Urban Unit 2019).

Much of the housing shortage results from our fancy for garden city approach in urban planning, which is land-intensive and has caused massive sprawl of our cities. This inefficient use of land has made owning a house a distant dream for a large proportion of the population. Vertical development of cities makes housing affordable by distributing the cost of land over many owners. The densification and mixed-use of land in cities have other benefits like reduced dependence on cars.

[73] Of which 20 million are in urban areas and 12 million in rural areas.
[74] Which will add 2.3 million to urban population every year.

Fig. 5. Access to Housing in Lahore, Punjab



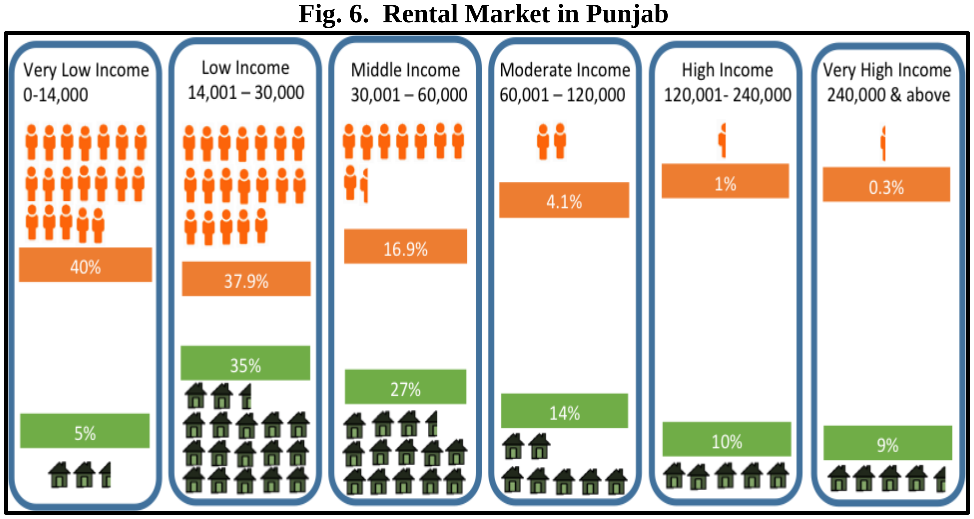
Source: Siddiqui (2014).

Access to housing is also limited. As the above figure shows, in Lahore, 68 percent of the low-income population has only one percent of housing within their reach, whereas the upper 12 percent segment has access to 56 percent. Inadequacy of housing stems not just from the short supply of housing but also from extreme inequality in access to it.

5.7.1. Missing Rental Market for the Poor

The rental housing market is highly skewed against the poor. For Punjab, the poorest 40 percent population has access to only 5 percent of rental housing, whereas upper-income households (0.3 percent) have disproportionately higher access (9 percent) (Figure 6 below).

Fig. 6. Rental Market in Punjab



Source: (Urban Unit 2019).

5.7.2. Inefficiencies in Land Market, Informality and Under-valuation

Pakistan lacks well-functioning land markets. Vague land titling system, regulated prices (such as the Deputy Commissioner (DC) rate), and non-availability of a common record of land and entitlement create impediments in the smooth functioning of markets[75]. Unclear land titles are a major cause of court litigations over land. ABAD suggests that about PKR1.1 trillion are stuck in litigation. “Stringent regulations for site development are responsible for the limited progress” in real estate (SBP 1st Quarterly Report 2019).

To make matters worse, the construction industry is largely informal. Pakistan, in general, has a large informal economy. According to the State Bank of Pakistan (2019), “A significant share of the unreported gains finds its way to the country’s property market. Further, very low official property valuations provide individuals a ‘legal’ way of under-documenting the transactions, those are benefited particularly who aim to minimise their tax liabilities or conceal their wealth as well as the source of income” (SBP, 2019: 92).

Table 5.2

Comparison of DC, FBR, and Market Rates in LHR and KHI

	Lahore			Karachi		
	DHA Phase V	Cantt. Area	WAPDA Town	DHA Phase VI	North Karachi	Gulshan-e-Iqbal
DC rate	14000	14000	8800	6987	1197	6987
FBR rate	8400	11700	8400	15124	3024	15124
Market rate	60254	41975	41975	102180	62111	59437

Source: The average valuation of 1 Kanal Residential Property (thousand Rupees) SBP (2019).
DC = Deputy Commissioner.
FBR = Federal Board of Revenue.
LHR = Lahore, and KHI = Karachi

The difference in District Collector (DC) rate[76] and Market rate (Table 1) is significant. It not only rips the potential source of revenue for the provincial government but the difference in valuation is also used to whiten black money. It is unclear why property valuations are based on archaic DC rates and do not reflect the actual market price, further hampering the housing market’s growth.

Summing up, given the market imperfections and heavy regulations, the construction sector and housing market are working at a sub-optimal level. We can infer that, at the time of its promulgation, the Prime Minister’s Construction Package and associated tax incentives and subsidies looked pertinent for giving a boost to construction activities, providing employment to skilled and unskilled workers during the Covid pandemic, and increasing the housing stock. The question remains if it would deliver on its promise. In the next section, we analyse the effectiveness of the package. Aside from reviewing the recent construction activities, we have also conducted a small field survey to gain the perspective of the end-user of the package to gauge user satisfaction.

[75] Minhas (2021) writes that the archaic land titling system creates non-transparency in titles and ownership.

[76] DC rates are used for valuation of properties for the purpose of levying taxes and stamp duties.

5.8. EFFECTIVENESS OF THE CONSTRUCTION PACKAGE

According to FBR, a total of 2125 projects worth PKR 493 billion were registered under the PM's Construction Package. 1,321 persons had registered themselves through Bureau's online system for 2,125 projects. Out of these, 1,775 were new projects, while 350 were existing projects (The Nation, 2021). Gross Fixed Capital Formation (GFCF) by the private sector grew by 20.6 percent between FY2019 and FY2020. Private sector GFCF amounted to over 95 percent of the total (BOI, undated).

What do we make of these numbers? PTI in its election manifesto had promised 5 million houses and 10 million jobs. The PM Construction Package was pitched to meet both ends. Construction being labour-intensive sector, a boost in it would absorb a large number of skilled and semi-skilled workers. The Prime Minister, while chairing a session of the review committee for the construction sector, had opined that in Punjab only, construction would generate economic activities worth PKR 1500 billion and create 2.5 lakh jobs (The News, 2021). The government believed that the construction of 3 million houses in five years will create 12 million jobs each year for the next five years[77](NPHA, 2020). Would 2125 projects registered with the FBR and other construction activities outside the ambit of FBR generate the numbers that the government is vouching for is a wild guess at best! Even if we assume a best-case scenario of high-rise buildings of twenty-plus stories, a few housing societies, and the houses constructed by the government, the numbers would not match the target set by the government. Below we discuss where the package hit the right notes and where it hit glitches.

5.8.1. A Much Awaited Reform Package

The stakeholders in the construction sector did receive the Prime Minister's Construction Package with much enthusiasm. Large sums of money were stuck in the real estate sector. There was a perception that the Scheme would boost the construction sector. The data of related inputs also showed an upward trend. Local dispatches of cement went up by 19 percent to 40.2 million tonnes during the first three-quarters of the Financial Year 21. Total cement dispatches (local plus exports) increased to 48.3 million tonnes during this period, up from 40.5 million tonnes from the previous financial year (Dawn, 2021).[78] Figure (7) below shows the local offtake of cement from July 2019 to June 2021. Barring a dip in local dispatches from February to May 2021, demand for cement saw a steady rise. The data does support an upward trend in the construction sector, but how much of this increase is due to the P.M construction package is hard to gauge when some mega projects are running in the country.

A Construction Industry Development Board (CIDB) was also set up by the Ministry of Planning, Development, and Initiatives. The initial draft bill is pending approval.[79] CIDB is expected to facilitate the private construction industry, encourage investments, and provide a one-window facility to investors (Business Recorder, 2020).

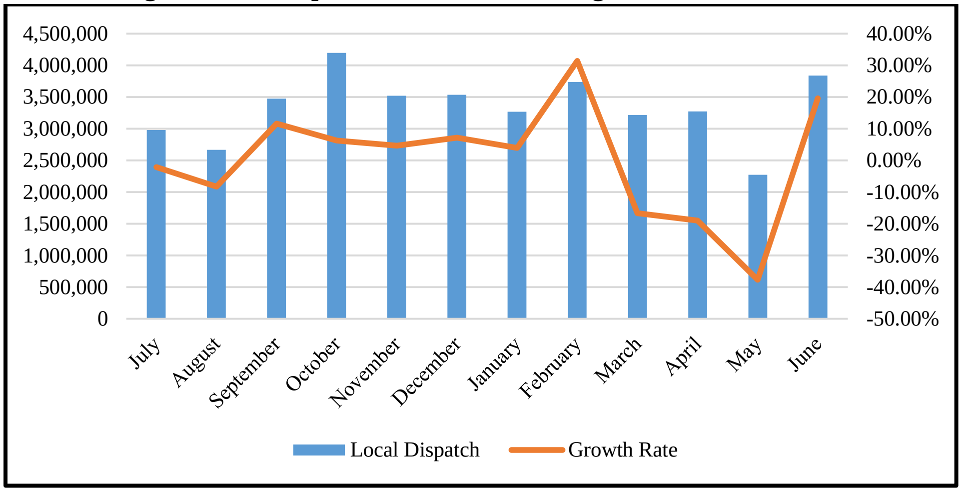
[77]This estimate was arrived at by assuming that the construction of a house creates 20 jobs, and 3 million houses will create 60 million jobs (ibid).

[78]Cement exports also rose by 7 percent during this time. All Pakistan Cement Manufacturers Association (APCMA) expected that the country's installed cement production capacity will reach 99Mt/year within the next few years (Dawn, 2021).

[79]https://www.pc.gov.pk/web/draftlegis

A step toward regulation and promotion of the real estate sector was taken with the promulgation of the Islamabad Real Estate (Regulation and Development) Act, 2020[80], to safeguard the interest of buyers, bring efficiency and transparency in the real estate sector, and provide speedy dispute resolution by establishing an Appellate Tribunal.

Fig. 7. Local Dispatches of Cement during 2019-2020 in Tonnes



Source: APCMA.

The establishment of the Automated Approval Regime by the Capital Development Authority (CDA) and Lahore Development Authority (LDA) has reduced the approval time from years to weeks.

The passing of a Foreclosure Law[81] paved way for the banks to expand their mortgage portfolio. State Bank of Pakistan (SBP) has taken many steps to provide an enabling environment. These include: requiring banks to keep 5 percent of their private sector advances for housing finance, relaxation in prudential regulations, using alternative methods of income assessment, exemption from using verifiable income for calculating debt to burden ration (DBR), simple and standardised application forms, acceptance of third-party guarantee during the construction period, waiver of debt burden ratio (DBR) in case of informal income, introduction of standard facility offer letter by banks, and establishing helpdesks at SBP field offices (Express Tribune 2022, Rahman 2021).

5.8.2. Unrealistic Timelines for the Projects

The initiative failed to gain momentum initially. As late as August 2020, only 40 projects had been registered with the FBR, with only six months remaining till the deadline (The News, 2020). The developers complained of bureaucratic hurdles and delays, citing lack of coordination between different agencies and Development Authorities and slow processing of projects (ibid.). A former ABAD chairman opined

[80]https://na.gov.pk/uploads/documents/1603371860_439.pdf

[81]The law, titled 'An ordinance to provide for the efficient recovery of mortgage-backed securities by financial institutions' (Ordinance No. IX of 2019), was passed by the National Assembly in November 2019.

that getting certifications and approvals from local authorities would be an arduous task. Further, the deadlines for registering projects (December 31, 2020) and for completing grey structures (September 30, 2022) are impractical, given that various authorities' approvals take a long time.[82] Acquiring reliable contractors and workers would also be extremely difficult (Aurora, 2020). The COVID-19 pandemic had also dampened the construction activities.

The package picked up pace in the first half of 2021 when one thousand seventy projects worth PKR 383 billion were registered with the FBR to avail of the incentives and amnesty by May 2021 (Business Recorder, 2021). Construction sector borrowing in the first half of 2021 stood at PKR 88 billion, up 44 percent from last year's same period (The News, 2021).

5.8.3. Inflationary Pressures and Construction

The construction sector was soon hit by the inflationary trend in the prices of raw materials for construction, putting a brake on the initial momentum. Chairman ABAD, Mohsin Shaikhani, claims that about 50 to 60 percent of construction activities in Pakistan have come to a halt due to a hike in the prices of building material, higher freight charges due to supply chain disruption[83], and a weakening of the Rupee against other currencies (Ahmed, 2021).

The Chairman of ABAD claims that the prices of cement, steel, and other construction inputs have increased by 70 percent, which has pushed the overall construction cost from PKR 2500 to PKR 4000 per square foot. The construction of low-income houses has taken a big hit as the estimated price of PKR 3 million has now risen to PKR 4.5 million. Mr. Zaigham Rizvi, Chairman of Naya Pakistan Housing Task Force, also expressed that builders and developers were unable to complete the projects as per earlier estimates and negotiations were underway for the reevaluation of the costs.

Though the prices of construction materials were experiencing an upward trend for the past many years (Table 3), these have shot up exponentially recently. Steel prices started increasing in December 2020 and witnessed an 85 percent increase in its price and were trading at PKR 192,000 per ton (Ahmed, 2021)[84]. Steel bar constitutes 40-50 percent of the cost of construction of high-rise buildings and 15-20 percent share for houses (Zameen.com, undated)[85]. Rising energy costs had pushed up the production cost of steel by 40 percent and increases in fuel prices had raised the freight charges (Express Tribune, 2021).

This inflationary trend in construction materials, owing to disruption in global supply chains due to the COVID pandemic, has dampened the construction activities in Pakistan in recent times.

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[82]The deadlines were later extended through the Income Tax (amendment) Ordinance 2021 as discussed above.

[83]Freight charges have jacked up from $2000 to $9000 from China to Pakistan due to the COVID Pandemic. The charges refer to a 40 foot container (Express Tribune, 2021).

[84]A price adjustment to the tune of PKR 30,000 is expected as international markets correct course (ibid).

[85]The price of steel has decreased slightly by PKR 5000 per ton in recent times owing to low scrap rates and sluggish demand. The price of scrap has come down from $500 to $465 per ton. Though, Chairman of Karachi Iron and Steel Merchants Association, Mr. Shammon Baqir Ali had expected the price to come down by PKR30,000 (Express Tribune, 2022).

Table 5.3

Increase in Costs of Construction Material

Construction Material	Change in Price (Dec 18 – Dec 20)
Pipe fittings	32%
Steel bars and sheets	23%
Construction inputs	23%
Bricks. blocks and tiles	22%
Cement	19%
Paints and Varnishes	15%
Ceramic and Sanitary fixtures	9%
Glass sheets	7%

Source: Malik (2021).

5.8.4. Where is the Land?

The package aims to spur the construction of 5 million houses to improve the much-needed housing stock. The big question is – where is the land? According to estimates (Table 3), 129,000 acres of land are required to build these houses (Nadeem *et al.*, 2020)[86].

Table 5.3

Proposed Land-use Breakup and Estimated Area for 5 Million Low-income Housing Units

Housing Unit Size	Area of Plot (sq ft)	Percentage	No. of Story*	Housing Units	Area (Acres)
3 Marla	675	33	2	1,650,000	15468.75
5 Marla	1125	18	2	900,000	14062.5
7 Marla	1575	12	2	600,000	13125
10 Marla	2250	7	2	350,000	10937.5
Apartments 3 Marla (2 bedrooms)	675	20	7	1,000,000	2678.57
Apartments 4 Marla (3 bedrooms)	900	10	7	500,000	1785.71
Total (45% of total land area)		100		5,000,000	58058.03
Roads, Commercial & Public Spaces (55% of total land area)					70959.82
Grand Total (Area in Acres)					129017.85

Source: Nadeem, *et al.* (2020).

5.8.5. Constructing Homes for the Poor?

But where is the construction for houses for the poor in the midst of this? Most poor want to live near their places of work, be it the centre of the city, to save on their cost of travel. That is why slums appear where work opportunities for the poor exist. Social Housing programs that do not take account of this fact often fail. The Association

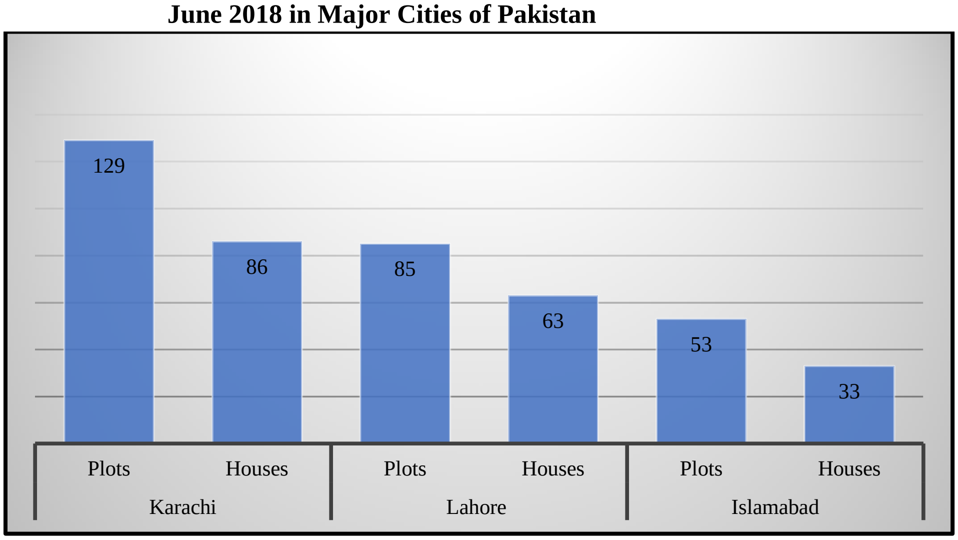
[86]Of 129,000 acres, 58,000 acres would be required for houses and additional 71,000 acres would be needed for road, commercial and public spaces.

of Builders and Developers (ABAD) in Karachi is aiming at the area around Superhighway and Hawkes Bay, where their members already own properties. Both these areas are far away from existing markets, and Hawkes Bay is not connected with public transport (Samaa, 2020). The land is most expensive in the city centres. It is where most job opportunities exist and where poor people want to live. Building houses far away from city centres will add to the miseries of the poor by increasing travel time and cost.

5.8.6. A Market for Plots

Pakistan's real estate market has predominantly been a 'plot' market. As figure (5) below shows plots are more profitable ventures than houses. Prices of plots have risen more sharply in comparison to the house prices. This reflects speculative investments in plots in major cities. SBP (2019) reports that many large industrial conglomerates diverted funds to real estate in search of quick returns instead of investing in their industries. The real estate sector has been the 'go-to' avenue for high net-worth individuals/firms for many years now. Anecdotal evidence suggests that a 125 square yard plot in the commercial area of Bahria Town Karachi has gone up by Rs. 9 million in two years.

Fig. 8. Percentage Increase in Property Prices between June 2013 and June 2018 in Major Cities of Pakistan



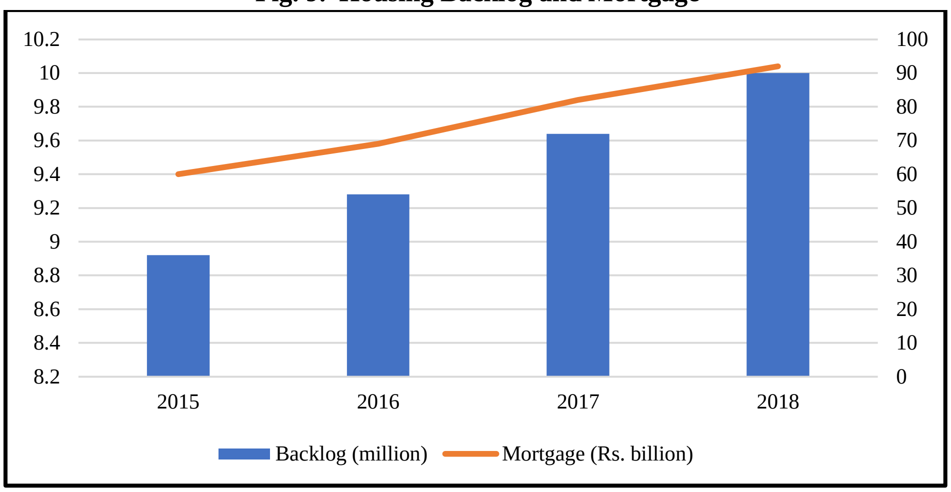
Source: SBP (2019).

Even registration forms for the newly opened sector sell for close to Rs. 100,000, generating millions in profit (Dawn, April 8, 2019). This speculative aspect of the real estate—rather 'plot market' has overtaken building houses as the most lucrative activity. Most buyers of the plot keep them as a holding to sell a few years later at exorbitant profits. A recent study by the Urban Unit Lahore found that 68 percent of plots in approved housing societies were vacant (Urban Unit 2019). The elite has basically captured the real estate business. Only 33 percent of the households in the total population can afford to buy a house (ibid).

5.8.7. Mortgage Reform

House purchase requires a significant up-front investment which is a big hurdle in ownership. Mortgage finance is an important instrument to make house ownership affordable for people with limited resources. The housing mortgage market is under-developed and under-utilised in Pakistan. It has the lowest house mortgage ratio in South Asia (0.25 percent of GDP), whereas India has 11 percent, Sri Lanka 8 percent, and Bangladesh 3 percent (Tola, 2020). The absence of the Foreclosure Law was the biggest hurdle for mortgage finance, forcing banks to adopt a cautious stance for risky investment – lending to the middle or low-income groups. In July 2019, a Foreclosure Law was promulgated by the President in the form of an ordinance titled 'An ordinance to provide for the efficient recovery of mortgage-backed securities by financial institutions' (Ordinance No. IX of 2019) to remove this glitch. The State Bank of Pakistan has also announced regulatory measures to supplement the government's initiatives. Defining a low-income house as one that (1) has a maximum value to PKR. 3 million; (2) has a covered area of up to 850 sq. ft., a loan size of up to PKR. 2.7 million can be availed against it (SBP, March 2019). To facilitate banks/DFI, the reserve requirements against low-cost housing finance portfolio was withdrawn.

Fig. 9. Housing Backlog and Mortgage



Source: Tola (2020).

It should also be noted that subsidising asset acquisition does not lead to poverty alleviation. Often it is a one-time gift to a selected few and not a poverty alleviation program.

More than assets, the poor need sustained growth in their incomes to build and hold on to assets. There is no gainsaying that this will only happen through accelerated growth in the country, which is sustained for about 20 years. As noted in the Framework of Economic Growth (2011), what is required is a coherent set of policies that deregulate the economy for investment to take off. Repeatedly, in the context of Urban Development, that can be achieved through regenerating cities, catalysing economic activity, and easing the businesses in formal and informal sectors.

5.9. P.M CONSTRUCTION PACKAGE—THE GROUND REALITIES

To understand the ground realities, a small survey was conducted. Twenty respondents, owners of 5 and 3 marla plots/houses, were selected for this purpose. Due to Covid restrictions, a convenient sampling approach was adopted. A cantonment area of Rawalpindi, namely respondents living within a 1 km radius of the Lalazar cantonment region, was chosen. The responses from the survey are given in the following bullets.

- The project is time-bound, and the construction is a slow, time-consuming activity.
- After the purchase of the plot, it takes one year to get a construction permit from different departments of the Cantonment Board of Rawalpindi. These departments are Rawalpindi *kachehri*, Tehsil Office, Chaklala Cantt Board, Station Headquarter, and security clearance from the military Intelligence.
- Due to the COVID-19 pandemic, workers' health has to be given due importance, which slows the process.
- Construction material has become costlier, and there is a big gap between the package amount (PKR. 2.7 million) and the actual price of the house.
- 5 *marla* house (double story) costs between PKR 10 to 15 million, and the maximum mortgage amount is 2.7 million for five *marla* houses (Mortgage figures are taken from Meezan Bank Website).
- This makes a five *marla* house out of reach of the poor and lower-middle class.
- Almost all the interviewees had constructed their houses using their own sources.
- There is a perception that the package is for the upper-middle class and not for the poor.
- Further, the respondents felt that the procedure for acquiring the loan is complicated.
- In short, the study could not find a single person who had availed of the house loan.
- The respondents were unaware of any person in their extended circle (friends and family) who had purchased a five *marla* house in PKR. 2.7 million.
- Authorities should allow the purchase of old houses as their prices are low.
- Poor people want to shift in the house after getting the loan amount and don't want to wait for the construction. In this way, they can convert their rents into installments right away.
- The project is time-bound, and the government should extend the period for construction.

5.10. THE WAY FORWARD

This construction package announced by the Prime Minister marks a departure from earlier policies and seeks to revive construction. We can identify three policy initiatives from the PMs Construction Package:

(1) The Covid pandemic has hit hard across all sectors of the economy. This package was introduced to provide livelihoods to the most vulnerable segment of society.

(2) Providing homes to the poorest segments of society.
(3) To lend support to the construction sector, which has sagged due to the documentation drive of the government earlier.

The initiative is huge and intent laudable but is it pitched rightly to serve the above three objectives. The general sentiment in the construction market is positive. Huge sums of money were stuck in the real estate after the documentation drive. The three-year amnesty will help them whiten their money by buying assets and free stuck-up money by selling property.

The Prime Minister conjectures, and rightly so that the construction sector employs a large number of informal workers and needs a special package to revive the economy and livelihoods.[87] Even though he may not be off the mark, the question remains - is it the right way to hand out the 'incentive package', or do market development and deregulation steps need to be taken to get full-scale benefits from it? The construction package in silos is akin to the sellers without the buyers. Urban development is the key to increasing economic activity, which is essential for creating buying powers for people to purchase housing units. We delineate an urban reform agenda that is needed in conjunction with the construction package for a more profound effect on the living conditions of the urban poor.

5.10.1. High-rise Mixed-use Construction or Sprawl

The commonly held belief that the construction industry mobilises 40 other industries holds true only when we include complex, mix-use, high-rise buildings and places of public entertainment and leisure along with residential plazas. The rhetoric must be complemented with the right act.

> **A House is a flat in Big Cities.**
>
> "Globally, people in big cities live in apartments in mixed-use neighborhoods with ease of access that encourages foot traffic eliminating the need for cars. Why is it that the Naya Pakistan Housing authority is still looking to build suburban housing for the poor far away from the city? Pakistani policy needs to learn from big cities in other countries and accept that large cities cannot be vibrant entities by spreading horizontally and must adopt the vertical growth model." Haque and Khurshid (2020)

The construction in urban planning has to move beyond the single-family households to urban regeneration, allied infrastructure, and city life that supports agglomeration.

Pakistan is now substantially urbanised. Using satellite data, Ali (2013) shows that 70 percent of Pakistan's population lives in urban centres. Some of the world's biggest cities are in Pakistan. As per Noman (2020), ten cities host more than 50 percent of the total urban population in Pakistan. Any proposal for construction must focus on regenerating these cities and making them poor-friendly.

[87] We discuss this in detail below.

The package does not underscore any area or type except housing. This lack of focus does benefit the status-quo that alarmingly leads to grave urban sprawl and gated communities. The investors are more interested in constructing houses with separate land values to ensure a high return on their investment at the cost of urban sprawl and geographic spread.

The cities in Punjab have spread at an alarming rate. Therefore, the package needed to be focused, and authorities must focus on urban regeneration, high-rise construction, and high-density buildings, as desired by Prime Minister, to:

(a) Avoid geographic spread,
(b) Avert high-transportation costs and affiliated pollution costs,
(c) Have sustainable and regenerated cities.

The country needs to have scores of cranes working every hour to be completing large construction projects. Haque (2017) has, time and again, asked the question, "where are the tower cranes?". The answer despondently persists as "nowhere in Pakistan."

5.10.2. Urban Regeneration

Given the prime minister's desirous agenda for urban development, *Urban Regeneration* can have the highest pay-off. The city centres of our big cities (Sadars in various cities) are all dying because planners have overregulated them. Onerous and erroneous building regulations prevent slums from rejuvenating. Even older middle-class neighbourhoods that are now in city centres such as Lal Kurti in Pindi, Misery Shah and Samanabad in Lahore, Douglas Pura in Faisalabad have poor living conditions, devoid of deserved economic activity and betterment of city; that makes the identity of the city questionable and kaleidoscopic. The planning paradigm thus far has been to forget these areas and build low value-added sprawl (Haque 2015). This is important because the current construction package brings no directive that could engender dividends of high-rise and urban regeneration. Any national construction plan must also consider urban regeneration to elevate life in preexisting urban areas (PIDE Viewpoint 16).

In response to urban sprawl and the negative density per square kilometre of population, PIDE has repeatedly convened discourse on the need of having high-rise buildings. In a recent consultation, the PIDE and stakeholders concluded the need of having high-rise buildings in various cities, including Lahore. The PIDE has argued that this high-rise culture shall:

(a) Reduce the cost of housing units,
(b) Lessen the welfare and municipality cost and expenditures,
(c) And avert urban sprawl.

5.10.3. (De)Regulations

Like most markets in Pakistan, archaic construction regulations have seldom been reviewed; and the PIDE has long resounded that we need to re-imagine our markets. The construction industry is a very good example of how construction, which is a leading sector in other countries, has been curbed by excessive regulation. PIDE has also argued—and Planning Commission in 2011 conceded this argument in Framework of Economic Growth—that the path to high sustainable growth has to include a period of high-rise buildings in Pakistani cities. And these buildings have to be complex construction within cities, and not sprawl.

To make this happen, several ideas that we have examined, and proposed, are:

(a) Make cities cohesive and defined: The promise of local governments eludes us. But even with local government, we have to ensure that cities have coherent jurisdictions and even designated areas. Lahore, for example, is divided into almost five overlapping jurisdictions of LDA, Municipal Corporation, DHA, Cantt, etc., and Karachi has 19 agencies, including DHAs, Municipalities, Federal Housing Schemes. Moreover, there are no defined city limits, and mere plot making stretches cities in strange directions.

(b) The flat is the unit of living in large cities: Whereas in all large cities worldwide, the unit of living is flat, in most of our cities (except perhaps Karachi), planners are holding on to the notion of single-family homes with a garden to be the norm. Surprisingly, the planners remain unaware that the poor cannot be accommodated in such single-family homes with a population running into millions. They had developed a social housing program for the poor in the rural areas around Lahore (Ashiana). The same pattern of mistakes is now being made in the NPHA.

(c) Density gradients: Let city centres densify through the development of flats living in high (10 or more floors) or midrise (less than 10 floors) buildings and allow for mixed-use there. Density gradually reduces with distance from city centres.

(d) Deregulation of cities: It should be emphasised that contrary to popular belief, the planner has no tools to develop clarity on where and what to build. Worldwide, people are moving away from the rigid planning of cities that is happening in Pakistan. More and more cities are now developing loose guidelines that allow markets to decide on usage, height, and cityscape. Zoning rules need to be relaxed.

(e) Mobile cities with limited cars**:** The planners have, for decades, favoured cars, making mobility for the poor almost impossible. If we want serious development and construction, our paradigm on city mobility has to change. The current paradigm of excluding the poor is based on the use of a car and the preference for suburbia**.**

> "A wholesale deregulation of the real estate sector to facilitate development, transactions, and investment is required. What is holding back real estate development is too many convoluted government regulations based on excessive requirements of permissions and documentation, and outmoded thinking. There is a clear need to check our mercantilist approach and recognise that all economic activity, including real estate investment and development, is productive. In fact, economic activity begins with purpose-built real estate in cities." Haque and Khurshid (2020).

5.10.4. Simple Rules and their Enactment

The government needs to ensure the uniformity and simplicity of rules to incentivise the developers across the board. The expectation of high-rise and other housing projects to be completed within less than two years is unrealistic. Also, the investors do need liquidity of resources for such large projects. The limited time shall only help the plot-making housing-construction business. Therefore, the state needs to introduce simple laws and do away with the complicated rules and regulations; for they only serve to impede construction and development.

Because of uncertainty due to Covid-19, there's a lack of demand. Thus, the developer must encourage affordable housing units in high-rise buildings, and the state can facilitate them. The construction is imminent, and the government needs to devise easy mechanisms of desired and required construction. For that, the government can start deregulating the system rather than further layering regulations.

Missing Elements of Reform

The government can use this moment to incentivise and streamline its preferences by:

(a) Enacting (simplifying) laws and reducing the layered over-regulation of markets,
(b) Relaxing Zoning Laws.
(c) Encouraging and incentivising high-rise and mixed-use buildings,
(d) Push further for the condominium law, multiple ownership laws, and reducing the costs of housing units,
(e) increasing the timeline of incentives for the investors making high-rise, mixed-use buildings,
(f) Promoting urban regeneration in Pakistan,
(g) Working with financial institutions to encourage financing for high-rises,
(h) Punjab, KP, and Islamabad have introduced the amendments in tax ordinances, and the rest need to follow the course,
(i) The government must encourage the high-rise buildings to construct apartments that shall:
    (i) Assist in creating more housing units,
    (ii) Build residential spaces at lower costs,
    (iii) Decrease the transportation costs and other municipality outlays.
    (iv) High Building Intensity

The construction package in silos is as ineffective and worse off as the sellers without the buyers. Urban development is key to increasing economic activity, which is essential for creating buying powers for people to purchase the housing units.

The dwindling buying power must be aided two-sided: a) the economic activity can generate employment and increase purchasing power, b) high-rise and apartment-buildings can reduce the inflated costs of house ownership through condominiums and apartments.

Multiple ownership, the establishment of mixed-use buildings, allowance of electricity, and other utility installments as per requirements can ease the process of doing the construction right (PIDE Viewpoint 12).

ANNEXURE 1

SWOT Analysis of Construction Sector

Strengths	**Weaknesses**
Steady growing demand	Lack of technical Innovation
Abundant labour force	Highly impacted by allied industries
Government incentives and support	Deadlines and delays
Readily available raw material	
Increased government spending	
Threats	**Opportunities**
Low barriers to entry	Naya Pakistan Housing Scheme Initiative
Possibility of lockdown	Government initiatives
Exchange rate fluctuations	Lower capital gains tax
Inflation	Advancement in technology

Source: PACRA (2021).

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