

# Under-Developed Real Estate Industry in Pakistan

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## Introduction

Real Estate Development is an important part of economic activity and wealth creation the world over.

Real estate is a huge market in every country. More millionaires were being made by real estate till 1980. Real estate activity drives the GDP of a country, especially in its early stages of growth, and provides ample employment opportunities.

## Questions to Ponder

1. Pakistan's real estate is fragmented and underdeveloped. Why is real estate development confined to 'plots' and houses in Pakistan?
2. What is the regulatory framework for the sector? Is this sector over-regulated or not regulated at all?
3. What are the processes that a Real Estate Developer must go through in Pakistan in doing his/her business?
4. How does this sector finance itself and why REITs are not common in Pakistan?

## Key Messages

- Real estate is a major sector of an economy, like the United States, where the market is around \$30 trillion which is 150% of the GDP.
- In contrast, real estate is considered unproductive and a cesspool of black money in Pakistan. Pakistan is often alluded to as Plotistan.
- Pakistani peoples are being brainwashed that real estate is the epicenter of wealth. They should invest in real estate and wait for the astronomical return to materialize.





- In reality, our markets, including the real estate market, do not function well because of inconsistent policies, high transaction costs, and the 'seth' mentality of the businessmen.
- Mr. Adil from Zameen.com contextualized the high returns associated with the real estate with the historical phenomenon where land was bought at a minimal price by ancestors, which were later sold at huge profits by their next generations. In his view, upward soaring prices of land was a historical trend.
- The real estate market is a cash-based market, and not based on supply and demand. In Pakistan, anyone with cash in hand wants to save that money in the best possible option, and often finds investing in plot as the most profitable. This dilemma exists because of lack of awareness about other investment opportunities like the stock market.
- Mr. Rashid Bashir highlighted the unskillfulness of the real estate agents by emphasizing the lack of training and guidelines for the realtors. The realtors don't have knowledge about the residential and the commercial area bylaws, which creates problems for the investors and buyers equally. It is essential to train realtors before they step into this profession, the way it happens in developed countries.
- There is no mechanism for pricing the real estate market. In the 21st century, we are still following medieval pricing mechanisms where price is set by the Deputy Commissioner office called DC Rate. Mr. Bashir quoted an example where a plot in Karachi is worth around Rs. 28 Billion and the price which is given by the Deputy Commissioner office is Rs. 0.2 million which is astonishing. This difference between the market rate and DC rate provides an avenue to whiten the black money.
- Pakistan, with a burgeoning population has an unmet demand for land/plots. A deeper issue plaguing the sector is the complex land ownership structure. Mr. Adil identified uncertainties on account of clear land titling as a major hurdle in development of the real estate market.
- Development authorities across the country have different procedures. Cantonment areas have different rules and regulations for purchase of land. Civic authorities have a different system altogether. A person interested in buying land has to obtain an allotment letter issued by the Divisional Authority. The process can take ages due to the outdated system of the 'Patwari' who keeps the land records in books. Since all the land records in Pakistan are not computerized, manual checking of records is a tedious and time-consuming process. Once, the record is checked, the next step is to get NOC from the courts to make sure there is no case filed against that land, which then allows the prospective buyer to purchase a piece of land.
- Another problem with the real estate market in Pakistan is that it predominantly builds single-family houses. Investment in vertical housing is little, which has led to an extreme shortage of affordable housing. The "Naya Pakistan Housing Package" has incentivized vertical buildings. It remains to be seen how it pans out in the near future.
- Former Chairman FBR, Mr. Shabbar Zaidi pointed out that a large portion of our economy is undocumented, and these undocumented taxpayers are the potential buyers/investors of high-end commercial property, but due to undeclared income, they do not participate in the healthy real estate market.
- Mr. Shabbar Zaidi elucidated the mechanized mafia systems which never let the system to digitize the real estate market. We will not have a healthy and prosperous market unless and until we eliminate the registry system. The government has spent billions of funds to digitize the system but could not succeed due to the mafias.
- On licensing of realtors, it was mentioned that there is no licensing system from the government side in America. There is a self-licensing mechanism in the brokerage market. Companies like Zillow serve the full lifecycle of owning and living in a home:

buying, selling, renting, financing, remodeling and more. Zillow has a living database of more than 110 million U.S. homes – including homes for sale, homes for rent and homes not currently on the market, as well as estimated home values, rent estimates, and other home-related information. Why can't we have such a system in Pakistan?

**The next part of the discussion was regarding the formal Mortgage sector. Where is the banking sector which caters to genuine buyer and what about the mortgage finances?**

- Interesting data was shared by Zameen.com that they tried to be a catalyst between potential buyers/customers and the bank. Initially, they referred 19,000 potential cases to banks that were interested in mortgaging their properties, out of which 6,400 files were qualified but eventually only 1 file was granted loan for the housing finance. These laws and regulations are so harsh and strict, which monstrously margin out the end user who ultimately changes his or her preferences at the end.
- The mortgage financing to GDP ratio in Pakistan is only 0.5%, which is 4% in the neighboring countries, and is highest in India where it stands at 10%. This low percentage is because nowhere in the world housing finance is done by the commercial banks, which is the case in Pakistan. House Building Finance Corporation (HBFC) is a specialized unit which deals with mortgage finance in Pakistan but is working sub-par as compared to its counterpart in India.

**When discussing the black money parked in the real-estate sector some important points were made.**

- One way to improve land utilization is that if a person is holding a land and no construction or productive work had taken place in two or three years, a channel should be set in motion so that he should be liable to sell that land or start some productive work on it which will help to maintain the supply side.
- Offline payment systems are missing in Pakistan mortgage financing, which means if apartments or flats planned to be built in a certain area, our banks show no interest in financing such projects until some real construction takes place.
- The question of 100 million worth of buildings was put in front of the speakers. Why does Pakistan not have a building worth \$100 million?
- The speakers opined that we cannot have high-worth buildings in Pakistan unless we have confidence in policies, regulations, and the businesses which can absorb such investment. The dilemma with the real estate market in Pakistan is that due to cumbersome laws, the land developers hesitate from investing in large commercial buildings like Burj Khalifa. There is little demand for such projects and hence no development. For example, the Coke factory is set up in a house, our schools and offices are in houses, they do not demand modern setups. In this scenario, how can buildings be built?
- Shifting from a 'plot market' to real estate development lies with the government. They have to intervene and facilitate the market. Like in Morocco, the city of Casablanca was expanding like Lahore. To control the horizontal expansion, the government incentivized the builders by reducing the taxes on vertical construction so much so that vertical construction started on every main avenue to curb the demand for space.
- Thinking that we can grow without a real estate market is a big myth and Pakistan has been living with myths for the past 50, 60 years. Real estate will always be there because people need to live and work and that needs spaces. The problem with our society is that we don't have space for offices, houses, schools, clinics and so and so forth.
- We build our offices, schools, clinics in houses because our planning system has failed. Regulation is the problem, not the market.

The important points highlighted in the webinar are that the 'Patwar' system should be abolished, DC rate should be abolished too. Let the market set the price. The role of commercial banks should be limited in mortgage financing and institutes like HBFC should be revived and incentivized for mortgage loans and a stimulus package for housing finance. The builder should invest 30 to 40% of his money in the project which will guarantee the success of the project.