

# Defeating the qabza mafia

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Real estate has become everybody's favourite whipping boy, regarded as a parking place for black money and a playground for the qabza mafia with little or no knowledge on the subject. It is seen as a Ponzi scheme that markets have created. Yet when you begin to understand the problem, we see it is a mess created by flawed government policy made in a fragmented fashion by various layers of bureaucracy.

The government has done everything possible to ensure that the real estate market does not develop. And it continues to do so.

Why do we have a broken pricing system? Decades ago, unable to track prices, the District Collector (DC) announced a price that obviously was difficult to adjust as rapidly as the market moved. When the static DC rate is outstripped by the market rate by a huge margin and becomes obsolete, the Federal Board of Revenue (FBR) jumps into announcing prices which it tries to adjust unsuccessfully. Both rates are different from the market rate at which transactions take place.

Why we persist with these prices at a time when market rates are easy to reveal with some technology is astonishing, to say the least! With these rates, the government has clearly announced that all properties will be registered at the lower DC rate as it is a recognised government rate.

The real estate market can be built by removing the outdated FBR and DC rates

It is the government-announced rate, and it is accepted for property transactions. Since taxes are charged at the (lower) registration rate why would a buyer not register at the DC rate? Therefore, the announcement of the DC rate or FBR rate readily develops "black market" flows.

Why do the rates persist? Real estate transactions are subjected to four types of taxes: the provincial government collects "stamp duty" and "capital value tax", while the federal government collects "capital gain tax" and "withholding or advance tax". Therefore, provincial governments use the DC rate to calculate the tax liabilities and the federal government uses FBR valuation rates for taxes falling under its jurisdiction. Amazing and confusing!

So why not abolish the DC and the FBR rates? Pure inertia.

Why not just allow the rate at which the transaction takes place to be announced? They say it is because people will under-report the transaction. These days very simple mechanisms will allow

information to be fully revealed allowing us to abolish both the DC rate and the FBR rate and bring some sanity to the real estate market.

Miftah Ismail the current finance minister, in his last tenure, did develop one such method. He announced that if the government found some transactions to be under-reported, it would step in and buy the property at that price. Simple deterrent to underreporting.

Why do we have no information on real estate availability and sales anywhere in the country? The Pakistan Institute of Development Economics (PIDE) has found that information is limited to brokers and brokers only know of a limited amount of inventory in their area. Both the buyer and the seller are at a disadvantage, leaving critical information in the hands of the broker and his insiders. But the government does not allow the data at which property is transacted to be revealed.

Twentieth-century experiments with price controls and socialism showed that market rates fluctuate substantially, and administrators are incapable of setting such prices with any level of accuracy. A large amount of evidence is available on this issue. Sadly, we continue to set prices for real estate to confuse both policy and the market.

A report published by PIDE shows that the real estate market, the investors' favourite market, has been destroyed because of poorly conceived government interventions such as the DC rate and the FBR rate and the government's penchant for secret transactions. Instead of solving the problem, we are building a Real Estate Regulatory authority to collect a further 0.5 per cent tax from real estate transactions! And why not? More government jobs for the boys!

A PIDE study also proposes a solution to this problem which is the introduction of listing all transactions on a national internet portal and developing an auction market for revealing prices. The suggested approach is:

1. Abolish the DC and FBR rates
2. All properties for sale to be sold must be advertised on a portal for all to see
3. Once the contract has been settled, it must be listed on the exchange for at least 2 weeks — called the contract period — before the transfer can take place,
4. The contract period will allow an auction market to happen
5. All registered buyers on the portal can now outbid the contract with better terms on price maturity and deposit
6. Deposits must be held in escrow and forfeited in the case of noncompliance
7. Legal transfer by the local authorities will only happen at the price determined by auction on the exchange and after the listing period has been certified to be completed.

This simple approach will solve the problems of the real estate market and satisfy all except the qabza mafia and the few who benefit from the current government-created mess. Where and who will look at such simple solutions in a hyperpolitical and uber-VIP approach to policy?

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