Discoursing Deregulations: A Case Of Rental Housing Market

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The rural-urban migration and explosive population growth is increasing the demand for housing in urban centers of Pakistan. But, inflation is bloating the construction cost, making it difficult for urban residents and migrants in mega urban centres to own houses.

According to the Pakistan Standard Living Measurement Survey (PSLM), 14.8 percent of urban households in Pakistan were tenants in 2008, which grew to 22 percent in 2020. At the provincial level, Sindh is leading with 26.1 percent of households living on rent, followed by Khyber Pakhtunkhwa with 23 percent, Balochistan with 22.5 percent, and Punjab with 19 percent. The number gets more significant for megacities — with 38 percent of households in the capital city living on rent, along with capitals of provinces leading with 44 percent in Quetta, 39 percent in Peshawar, 37 percent in Karachi, and 25 percent in Lahore.

In comparison, these numbers are high for tenants in commercial sectors, as most city shops and offices are for rent.

The existing rental housing options in cities of Pakistan are limited, disorganized, over-regulated, and poorly managed. Investing in rental housing may not be as attractive to businesses or private investors due to over regulations, NOC culture and weak property rights, costly land acquisition constraint supply, taxation, building and construction, and rental regulations.

The recent Pakistan Institute of Development Economics (PIDE) research, *Review of Urban Rental Housing Regulations in Pakistan and Lessons from Practices in Developed World*, emphasizes the development of vibrant rental markets by deregulating the rental markets and amending the rental regulations so that people start investing in rental properties.

The study makes the following recommendations:

> Investing in rental housing may not be as attractive to businesses or private investors due to over regulations, NOC culture and weak property rights, costly land acquisition constraint supply, taxation, building and construction, and rental regulations.

To deregulate the market by amending the regulations that can help rental market to thrive. There is need for regulatory amendments in the development of a vibrant rental market. The regulations date back to the colonial times. There have been no serious efforts, after the development of the West Pakistan Urban Rent Restriction Ordinance 1959, to update the system that caters to needs and requirements of modern cities. There is a need to develop an act that reduces regulatory constraints.

The PIDE research found that majority of the developed European countries deregulated their rental housing markets. It reveals that in order to make the rental markets vibrant, the government footprint through strict regulations should be reduced with the minimization of administrative procedures and

NOCs so that there is an incentive for investors to invest in the rental property.

Second, the enforcement of these regulations for eviction from tenants and dispute resolution is weak, which create many uncertainties in the mind of landlord. They avoid renting the house to avoid the situation in which tenants grab their property. There is a need to empower the landlords through these regulations so they can confidently give their house on rent without fear of *qabza*.

In European countries the enforcement mechanism is either medium or high, which reflects the importance of cumbersome and straightforward enforcement mechanism for the development of vibrant rental markets.

Third, the rent increase in megacities, like Islamabad, Lahore and Karachi, is explosive. Based on the practices of developed European countries, there should be rent controls by linking the rental increments with the inflation rate.

Fourth, while a majority focuses on megacities, like Lahore and Karachi, we are ignoring the rental housing situation in the intermediate and small cities, such as Bannu, Lasbla, Quetta, and Abbottabad. There is a need to focus on research on emerging and intermediate cities for the development of vibrant rental markets.

Lastly, all rental acts and regulations mainly deal with residential tenants and fails to make the distinction between commercial and residential tenants. There is a need to draft new rental acts for commercial tenants as the rent structures, and security is different.

To make the rental market vibrant, along with deregulations, there is a need to address the intermediate cities and commercial tenants in amended regulations. There is also a need to learn from best practices to allow investment in the rental market to thrive.

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