

# Prime Minister's Construction Package

An Evaluation

Lubna Hasan

Hanzla Jaleel

Hafeezur Rahman Hadi

# Prime Minister's Construction Package

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construction sector given the **status of an industry**.

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A **fixed tax regime** for builders and developers based on project area. Tax to be computed on a project-to-project basis.

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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.

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**Exemption of 90% of tax payable on the income, profits, and gains of projects of low-cost housing**, approved by Naya Pakistan Housing and Development Authority (NPHDA), for investors.

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**Exemption from the withholding tax (section 153 of the ordinance)** on the purchase of material (except steel and cement) and of services (provided by non-corporate service providers).

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**Rs 30 billion mortgage subsidy for the low-income housing.**

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Establishment of the **Construction Industry Development Board (CIBD)**.

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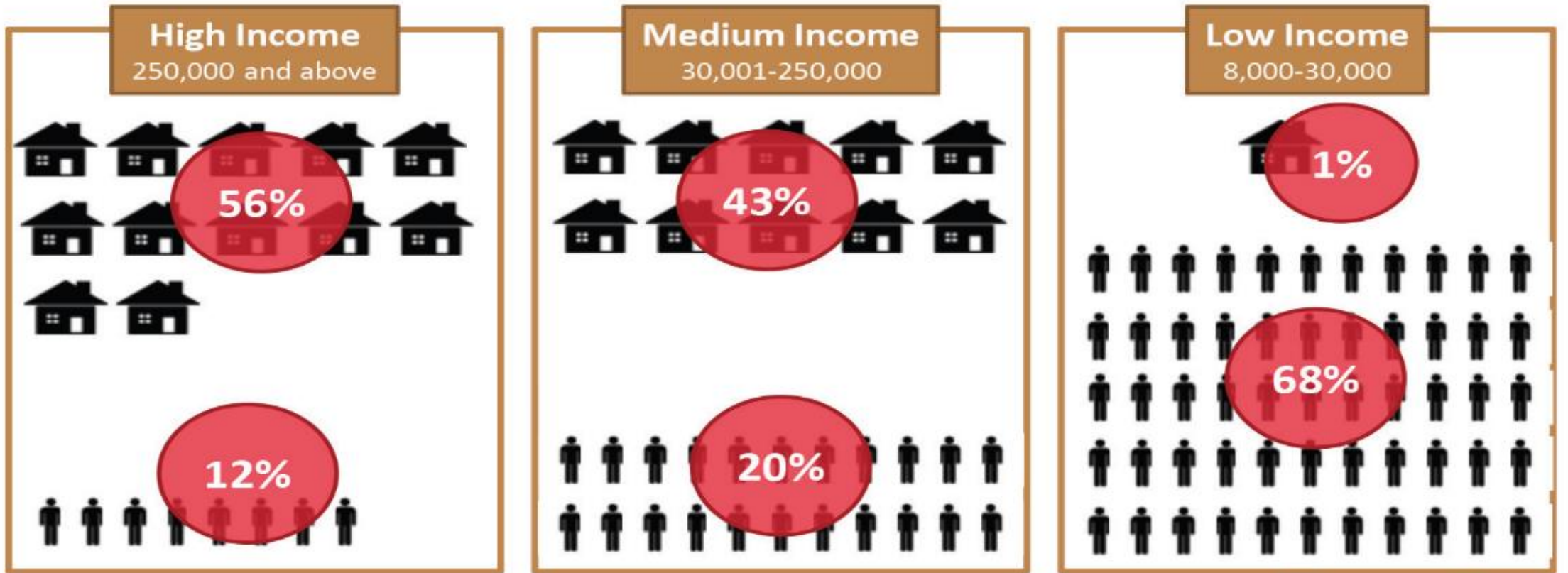
Instituting of **Real Estate Regulatory Authority (RERA)**

# Relevance

- Pakistan faces a serious shortage of [housing](#).
- Construction contributes about 2.5% to the [GDP](#).
- Construction is a [labor-intensive](#) sector.
- Livelihood opportunities during Covid-19.

# Effectiveness

- 2,125 projects with a total investment of PKR 493 billion.
- 1,321 persons had registered themselves through Bureau's online system for 2,125 projects.
- Out of the registered projects, 1,775 were new projects, whereas 350 were existing projects.
- GFCF in private sector grew by 20.6% between FY2019 and FY2020. Private sector GFCF amounted over 95% of the total.



68% of the population (lowest income) has only 1% of total housing units within their buying reach

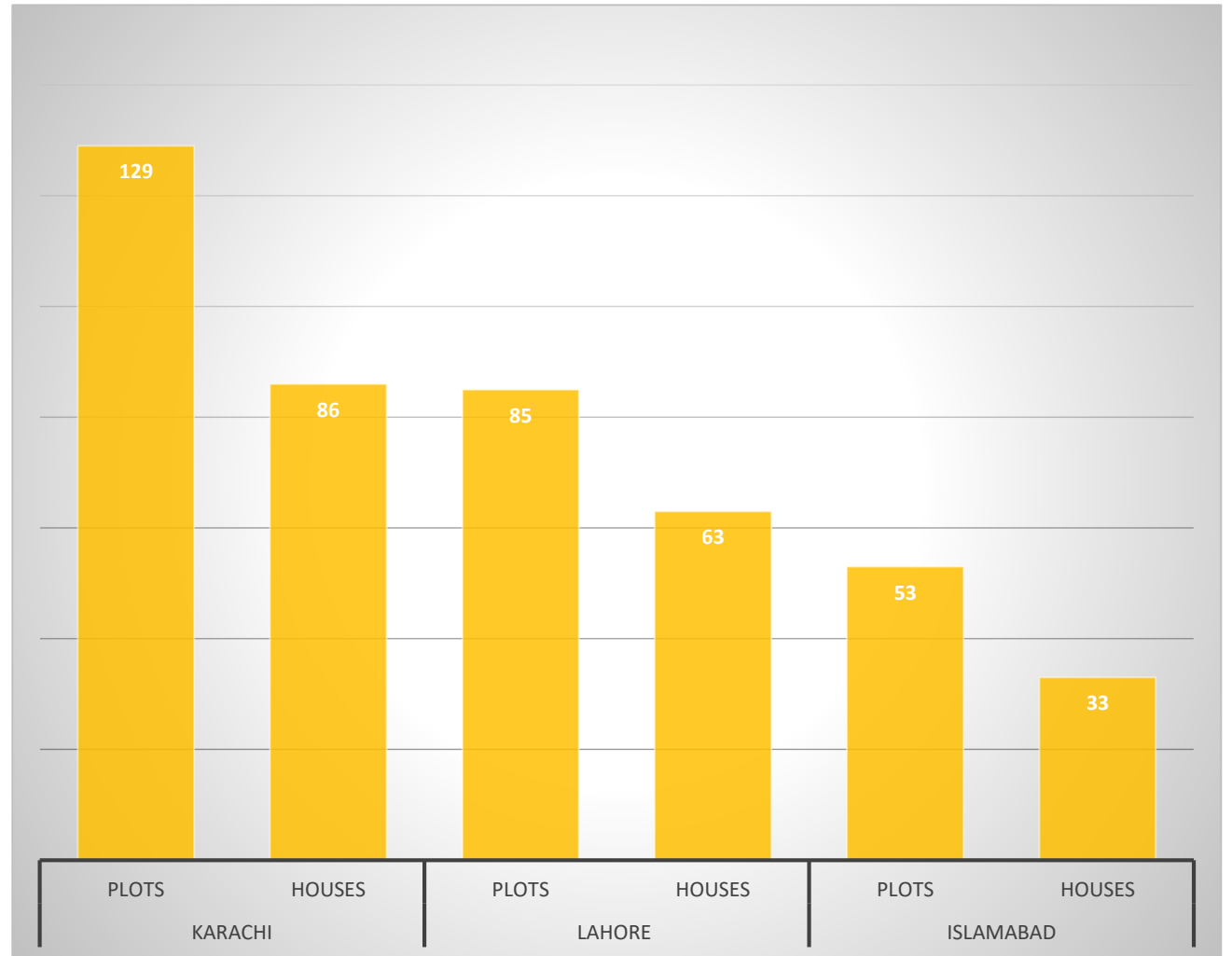
*A Dysfunctional Housing Market*

# Burden of Regulation

- Pakistan's construction sector is heavily regulated and controlled (PIDE PV, [12](#)). The procedures and permissions required for construction are extensive and complex.
- Absence of land records and titles deeds render obtaining a construction permit tedious and time consuming.
- The regulatory structure is not well defined either. A developer faces different regulators, spanning across different tiers of government and across different Development Authorities. Each Development Authority has its own set of rules and procedures.

# A Market for Plots

*Percentage Increase in Property Prices between June 2013 and June 2018 in Major Cities of Pakistan*





# Under-valuation and Informality

## *Comparison of DC, FBR and Market Rates in LHR and KHI (September 2018)*

### **The average valuation of 1 Kanal Residential Property (thousand Rupees)**

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

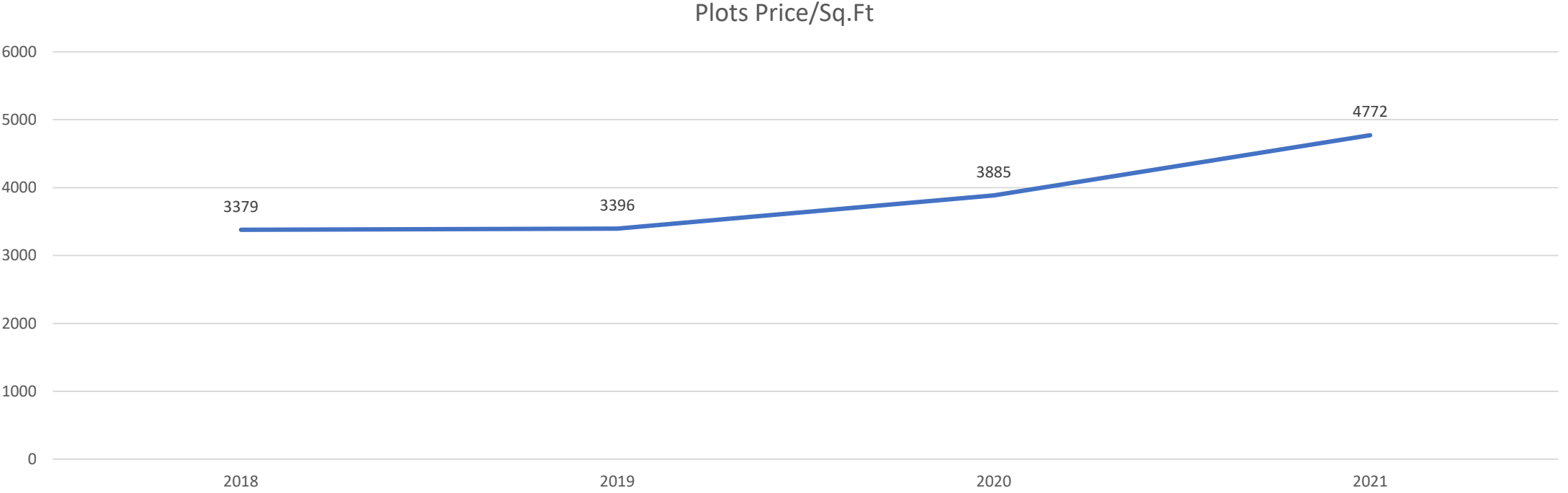


# Increasing Cost of Construction

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- The prices of all raw materials have increased by more than 70 percent during the last one year.
- The overall construction cost had gone up from about Rs2,500 to Rs4,000 square feet across the country.
- About 50 to 60 percent of construction activities in the country have come to a standstill.

# Rising Prices of Land



# Public Perception Survey

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The project is time-bound, and the construction is a slow, time-consuming activity. It takes 1 year to get construction permit from different departments of the Cantonment Board of Rawalpindi [*kachehri*, Tehsil Office, Chaklala Cantt Board, Station Headquarter, and military Intelligence].

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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.

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5 *marla* house (double story) costs between PKR. 10 to 15 million, and maximum mortgage amount is 2.7 million for 5 *marla* house, making it out of the reach of the poor and lower middle class.

# Public Perception Survey

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There is perception that the package is for the upper-middle class, and not for the poor.

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All the interviewees had used their own resources for building the house. Neither were they aware of any person in their extended circle (friends and family) who had acquired the loan or purchased a 5 *marla* house in PKR. 2.7 million

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Authorities should allow purchase of old houses as their prices are low.

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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.

# Urban Development is the Key

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



# Essential Elements of Reform

- **High-rise Mixed-use Construction vs Sprawl.**
- **The flat is the unit of living in large cities**
- **Urban Regeneration**
- **(De)Regulations**
- **Zoning Rules Need to be Relaxed**