Pakistan Real Estate Market
Year in Review 2012 – Outlook 2013

Accelerating success.
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1. Pakistan Socio-Economic Review
1.1 Economic Overview: Tough Times Don’t Last

Pakistan’s economy weathered multiple exogenous shocks in 2012. Severe gas shortfall had an adverse impact on industrial output and growth; two consecutive years of floods destroyed more than 20% of crops. These coupled with severe electricity shortages added pressure to the external account by way of higher import bill for inputs.

Moreover, investment has remained sluggish. During 2012, the investment-to-GDP ratio reached a low of 12.5% due to security concerns, energy constraints, excess capacity in the manufacturing sector, the fiscal spill over on the balance sheet of commercial banks, and concerns about sector-specific policies. Public investment has also been overshadowed by subsidies.

In spite of this, Pakistan’s economy has witnessed a modest improvement in FY 2012: real GDP grew by 3.7%, compared to 3% in 2011, and this growth was evenly distributed across agriculture, services and industrial sectors. More positively, growth in FY 2012 was driven by private consumption due to strong worker remittances, a vibrant informal economy and higher fiscal spending.

1.2 Inflation Trend

Actual inflation for FY 2012 was lower than target at 11% due to better domestic crop production and a gradual decline in global commodity prices. Looking ahead, SBP’s decision to cut its policy rate by 250 bps to 9.5 percent in the initial months of FY13, is partially aimed at reviving private investment in the economy, though we believe this is unlikely to take place in the near future.

1.3 Exchange Rate

The Pak Rupee depreciated by 9.1% against the US dollar in FY12. Despite erratic oil payments and servicing of IMF loans, the depreciation in Pak Rupee was relatively gradual through most of the year. Instead, the value of Pak Rupee seemed more sensitive to geo-political and adverse market sentiments.
1.4 Going Forward

The year 2013 presents a challenging and unpredictable political scenario for investors in Pakistan. Dissolution of the current setup, setting up of caretaker govt. and a new govt. post general elections are the major political events to take place this year. An efficient transition in political leadership via mandate for a single party is essential given prevailing economic conditions and will impact economic growth.

The Lahore property market outlook remains particularly attractive for 2013. The success of the agricultural sector in the peripheral areas has resulted in increased wealth which is flowing to Lahore. This and the improved law and order situation which is prompting many businesses to move their operations from Karachi to Lahore will have a positive impact on the property market.

1.5 A shift in Investment Patterns

However, even if the political scenario does not improve, the impact on the equities and property market will be minimal. Pakistan has a large informal economy where investors tend to park their money in the property market. Moreover, given stricter documentation requirements within the formal economy, people are choosing to invest in the stock market or in local property.
2. Pakistan Office Market Review
2. PAKISTAN OFFICE MARKET REVIEW

2.1 Karachi Office Market

SUPPLY CONDITIONS

Karachi has an approximate office supply of 14 million sq ft which is expected to increase to 14.4 million sq ft in 2013. Currently, we feel that the market has become more competitive and demand has shifted to small sized offices. All major new developments have very low take-up rates and are struggling to find tenants. Since security is of the essence, developments with better security measures attain higher occupancy.

KARACHI OFFICE DEMAND

Security concerns and continuing political instability have subdued demand for office space, with many small and medium businesses moving operations to safer cities. Even within Karachi, companies are choosing to relocate to office buildings that provide a higher level of security such as Harbour Front and Dolmen Executive Towers. It is important to note that the success of these developments have been due to relocation of companies from other office buildings rather than growth or expansion of businesses.

RENTS EXPECTED TO DECLINE

Rents have become highly negotiable and are expected to decline due to increased supply in 2013. On average, prices have dropped by 24% depending on the quality of the building and its location.

2.2 Lahore Office Market

SUPPLY CONDITIONS

Lahore office market is fragmented as there is no core central business district in the city. Our survey figures estimate a total supply of around 4.5 million sq. ft. of office space in Lahore. A total supply of 2.6 million sq. ft. was planned to be injected into the office market. However, 1.4 million sq. ft. of office space is under construction in Lahore.

LAHORE OFFICE DEMAND

Lahore’s corporate footprint lacks demand for A grade offices and large floor plates, instead demand exists for offices of smaller sizes ranging from 800-1500 sq. ft.
Multiple office buildings in 2012 witnessed an increase in average occupancies, partly due to relocation of businesses from Karachi to Lahore but mainly due to the city undergoing severe energy crises which directed many companies which previously operated from houses and bungalows moving to commercial buildings with backup power generation facilities to counter that.

RENTS REMAINED STABLE

Although leasing market has become active this year, rental rate have remained stable in general wherein a slight increase of 2% (average) has been witnessed.

2.3 Islamabad Office Market

ISLAMABAD OFFICE DEMAND

Islamabad, being the capital, is an administrative hub dominated by Government offices, Embassies and Foreign Mission offices. Other major corporate occupants of offices are from telecom industry, oil & gas sector and banking sector.

Islamabad office market has been inactive and very limited lease/sale transactions have been observed in the past two years. Anecdotal evidence suggests that around 3 million sq. ft. office space is currently vacant.

SUPPLY CONDITIONS

Our survey figures estimate a total supply of around 5 million sq. ft. of office space in Islamabad with Blue area as the main commercial hub of the city.

RENTAL AND SALE PRICE CONTINUE TO DECLINE

High vacancy rate has affected the rental and sale price where a steep decline has been observed since 2010. Islamabad Stock Exchange Tower became operational in 2010 and still has very low take-up rate. Since then, no notable office development has been launched in Islamabad.

2.4 Market Outlook

We foresee the occupancy rates of office developments to remain low, unless an improvement in the law and order situation and government stability surfaces.
3. Pakistan Retail Market Review
3. PAKISTAN RETAIL MARKET REVIEW

3.1 Karachi Retail Market

OVERVIEW: MODERATE GROWTH MAINLY DUE TO DOMESTIC RETAILERS

KARACHI RETAIL SUPPLY

According to our estimates, Karachi has a total shopping mall retail supply of 2.4 million sqft. Dolmen City Mall Clifton is the only regional mall in the city having space of 1 million sq. ft.

Currently, 2.7 million sqft of shopping mall retail space is under construction. Lucky One Mall, Icon Tower Mall and The Mall are the major upcoming retail supply in the city.

KARACHI RETAIL DEMAND

Dolmen Mall Clifton received phenomenal response during its launch with many prominent foreign brands including Carrefour, Debenhams, Mango and Next opening their first outlet in the city.

Karachi retail market has full potential to be exploited provided that proper planning, tenant mix and pricing structure is given due consideration.

3.2 Lahore Retail Market

LAHORE RETAIL SUPPLY

Lahore, despite having a population of 10 million, has no regional mall. According to our estimate, approximate stock of 5 million sqft. of shopping mall retail space exists in the Lahore market, most of which is concentrated within the periphery of Gulberg and Main Boulevard.

An estimated supply of 2.45 million sqft of future shopping mall was planned to be added by 2014. However, currently 1.4 million sqft of it is under construction.

Fortress Square, currently under construction is located at The Fortress which is conceptualized to become the first regional retail setting of Lahore city. This development, being marketed exclusively by Colliers International, received a phenomenal response after its launch from investors and retail brand owners.
3. PAKISTAN RETAIL MARKET REVIEW

LAHORE RETAIL DEMAND

Lahore is recognized as the first point of entry in Pakistan by most international brands; Carrefour’s local brand Hyperstar, Next and Hardees etc. opened their first country store in this city.

In the sale model, typical size demanded ranges from 180 – 250 sqft whereas larger sized spaces are generally leased.

High quality malls have higher occupancy in comparison mainly due to their offering better quality development, facilities and amenities that support the overall development and shop sizes which suits the international brands.

3.3 Islamabad Retail Market

ISLAMABAD RETAIL SUPPLY

Islamabad currently lacks the culture of shopping in traditional shopping malls as there is no shopping mall in the city. Its retail supply predominantly comprises of community retail centres established in the center of each sectors. These centers are locally known as Markaz and accounts to total stock of 1 million sqft approximately. These Markaz consist of 2-3 floors of commercial plazas or as standalone stores.

Malls are planned in the upcoming developments such as Centaurus and Safaa Mall, which are expected to become operational over the next 12 – 18 months.

ISLAMABAD RETAIL DEMAND

Since a low population exists in Islamabad, it is considered to be a two store market i.e. any big brand can cater for the whole of Islamabad by opening only 2 standard stores. Nonetheless, strong demand for retail space exists in Islamabad and occupancy figures average over 80%.

3.4 Market Outlook

Pakistan has witnessed moderate increase in demand for retail space spurred mostly by local brands such as Khaadi, Nishat Linen and other franchises increasing their retail footprint. In the past five years we have also witnessed an increase in global brands such as Gloria Jeans, Hyper star, Debenhams, Mango etc. opting Pakistan’s retail market as their next outlet. Due to multiple options of retail space available, a high profile development offering better facilities such as ample parking provisions, good sized shops and equipped with modern security measures may achieve better occupancy over others which do not.
4. Pakistan Residential Market Review
4. PAKISTAN RESIDENTIAL (APARTMENTS) MARKET REVIEW

4.1 Karachi Residential Apartments Market

OVERVIEW: MODERATE DEMAND FOR AFFORDABLE HOUSING AND APARTMENTS

KARACHI RESIDENTIAL SUPPLY
A major percentage of the residential dwellings in Karachi city comprise of apartments. Anecdotal evidence suggests that 40% of the total residential dwellings are apartments.

Arkadian with 2,000 and Lucky One with 600 apartments are two major upcoming projects in the city.

KARACHI RESIDENTIAL DEMAND
2009 witnessed a paradigm shift from foreign speculative buyers to actual end users which led to a greater demand for affordable apartments over luxury apartments.

PRICING MATTERS
Major high-end apartment projects such as Creek Marina and Crescent Bay are still struggling whereas, Vincy Mall & Residency in Clifton received a good response due to reasonable pricing.

Since rental yield for apartments is low and considered affordable, the leasing market has been tight and major rise in rents have been witnessed since 2011.

4.2 Lahore Residential Apartments Market

LAHORE RESIDENTIAL SUPPLY
Lahore has a very limited supply of apartments. Though the concept was explored by many developers but residential preference is significantly towards horizontal living in detached villas.

There are approximately 20 mixed-use developments across Lahore offering 2 or more floors of apartment units. However, most of these apartments have been converted into offices and are currently being used for commercial activity. Due to the usage of apartments as offices, pricing and rents vary considerably.

Our survey estimates 14 new projects were planned to be injected into the existing supply of apartments by 2013. However, Only 4 of these are currently under construction but their construction pace is very slow.

3 years Avg. Sales Price Trend – Karachi, Lahore and Islamabad

3 years Avg. Rental Price Trend – Karachi, Lahore and Islamabad
LAHORE RESIDENTIAL DEMAND
Lahore has witnessed high population growth and heavy intercity migration as it offers safer living and better economic conditions. While there is an increase in residential demand, the demand for apartments is still low. All newly launched societies including Bahria, Eden and Lake City did not include apartments. Furthermore, several apartment developments were launched in Defence but plans were altered to include villas.

4.3 Islamabad Residential (Apartments) Market

ISLAMABAD RESIDENTIAL SUPPLY
Islamabad residential sector is dominated by villas and bungalows. Initially the apartments were introduced as part of government housing schemes for government employees. However, with the escalating land prices, apartments came into mainstream in the form of an affordable housing option. According to our estimates, apartments constitute 10% of the total residential developments in Islamabad.

Amongst the upcoming residential developments, ONE Constitution Avenue, being exclusively marketed by Colliers International, is the most prestigious high end apartment development of Islamabad, situated at a prime location adjacent to the convention center.

ISLAMABAD RESIDENTIAL DEMAND
Studio apartments and 2 bedroom apartments are the highest in demand and the prices tend to vary depending on the quality and location of the development. Currently, Colliers estimate average occupancy of over 90% in Islamabad’s apartment sector.

PRICE
Apartment developments located in diplomatic enclave tend to have higher rentals ranging from PKR 80,000 - 100,000 per month whereas, the ones located in other parts of Islamabad range between PKR 35,000 – 40,000 per month. The capital values range from PKR 6,000 – 13,000 per sqft depending on the quality of the development.

4.4 Market Outlook
Population growth, migration and Rupee depreciation has mainly contributed to demand for residential housing. We expect this trend to continue given that the stock market is at an all time high and investors will transfer holdings from equities to property given the higher upside. In addition, money is harder to move out of the informal economy due to tighter documentation controls, which will contribute to increased investment in properties.
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