

## A MACRO OVERVIEW

# Pakistan Real Estate Market

Pakistan, like other developing countries, is facing crises of shortage in the housing sector. This basic human need for shelter is felt more profoundly and keenly at the bottom of the population strata, comprising the poor and financially under privileged and underserved segments of the society.

As confirmed by the population census of 2017, Pakistan's current population has surpassed 208 million, and with annual population growth rate of 3%, it is expected to surpass 270 million over the next ten to fifteen years. Such an explosive population growth, though a silver lining for demand generation in the real estate market, does not bode well if specifics of planning within the real estate sector are not fine-tuned and aligned to the demand dynamics.

It is estimated that the annual demand for new homes is approximately 700,000 a year, whereas, only half of this demand gets met, leaving a rolling deficit to be added to and carried forward to subsequent years. As per the statistics of the State Bank of Pakistan (Central Bank), the overall housing deficit stands at ten million units and is growing. Therefore, while the demand generator in real estate is the explosive population and urbanization, the supply side of the equation, supply gap is hindered by a number of legal and financial constraints. The principal among these are:

- **Ineffective legal framework** There is a deficit in presence of favorable and effective laws that are supportive of confidence within the financial institutions, which carry ultimate responsibility of distribution of credit finance to the real estate sectors of the economy. Foreclosure laws for property are in urgent need of update and reinforcement.
- **Proper maintenance of land records** At present a common record of land transactions and property rights is just not available in Pakistan. Manual rather than digital updates are done, with high probability of errors of omission.
- **High registration cost** In Pakistan the registration of immovable property is done under Registration Act 1908, which documents evidence, assurances and title of the property. The process is costly in terms of money.
- **Urban land monopoly** The Government is empowered to acquire land for public purposes under The Land Acquisition Act 1894. This hinders speedy land acquisition process, at a fair price and is often the cause of cost overruns.
- **Land market frictions** According to World Bank all such land market frictions and often duplicity need to be controlled, if supply barriers are to be neutralized.

In its flagship Asian Development Outlook 2018 update, the premium lending agency Asian Development Bank (ADB) has revealed that Pakistan's economy is slowing down in light of a pressing need to curtail large budget deficits and external account imbalances. The bank anticipates a 1% drop in the rate of annual growth of the economy, and a 2% rise in inflation during the current fiscal year.

The ADB anticipates that the GDP growth rate will touch 4.8% this year compared to 5.8% in the fiscal year ending in June 2018. Inflation has been increasing significantly to 6.5% at the end of the current fiscal year against 4.5% last year. These macroeconomic indicators are sure to have a spillover effect on many sectors including the real estate sector. In line with market expectations the State Bank has raised its benchmark interest rate by 150 basis points to reach a 5 year high figure of 10%. This policy rate adjustment will add to the cost of borrowing and doing business in Pakistan. The fact that the cost of borrowing will go up, indicates Government of Pakistan is putting forward a premium to save rather than spend. Perhaps this is a short term policy measure to cool the economy, reduce pressure on balance of payments position, and an anticipatory first step of going to IMF for a standby credit in support of external account.

Historically Pakistan's real estate business sector has been part of an unorganized sector, characterized by a set of genetic weaknesses highlighted above. However, recently a number of policy options and policy changes have been introduced by the new government in order to improve the structure of the sector. These changes are instrumental in current market slowdown, as the stakeholders and major players take cognizance and absorb the policy implications. We are confident that the market will eventually rebound.

Traditionally, the real estate sector has been used for parking of black money. To curtail this activity and to regulate the sector, the Pakistan Tehreek Insaaf (PTI) led government has initiated various policy options to control the further flow of illicit money in to the property market. Through the Finance Act 2018, the government had prohibited non-filers of income tax returns from buying property valued above PKR 4 million. Under the proposed buyback scheme, which is currently under consideration the government will be authorized to buy individual properties within six months of registration for double the declared price in FY 18-19. It has further announced abolishing the FBR rates, urging provinces to shun DC rates. However, provinces have not heeded the federal government's advice to do away with DC rates. The government has also recently revised upwards, the value of property that non-filers can now buy from PKR 4 to 5 million. Exemptions have also been given to widows, inheritors and overseas Pakistanis from the tax filer clause, if funds to buy the property flow in through official banking channels.

On the domestic front, The Federal Board of Revenue (FBR) is aggressively pursuing its agenda of identifying and seeking to crack down on tax evaders, who are not registered tax payers, but have managed to pour billions worth of investment into real estate. The aim is to expand the tax net, weed out speculators, thereby regulating the real estate sector. The process will be slow, but if carried to its logical conclusion, it has the seeds to bring back vitality and stability to the sector.

Expressing deep concern over irregularities occurring in the sector, the Supreme Court has placed a ban on the commercialization of residential plots / properties in Lahore. In Karachi the apex court has disallowed the construction of high-rise buildings of over ground plus six floors, but subject to the availability of proper water supply and sewerage system for the new projects. These decisions have had an adverse impact on property prices in Lahore and to a greater extent made commercial developments unviable in Karachi. Overall due to these conditions activities in the property market have reduced and the sector is stagnant in the short term.

Another important factor playing in this sector is the cost of construction. Due to increase in incidence of indirect taxation, the input costs have escalated upwards, following a notable rise in steel bar prices, cement, tiles and sanitary wares etc. Further price escalations cannot be ruled out, subsequent to devaluation of the PK Rupee against the US dollar. It is worth mentioning that under the Naya Pakistan Housing Program, the Prime Minister of Pakistan has vowed to build 5 million low-cost houses across Pakistan in the coming five years. The registration process for this scheme has already begun, drawing a massive public response. In the final analysis, how this program will unfold, cannot at this stage be subject to any fair comment. It has however, the seeds of stimulating the real estate and ancillary industries.

There is a gestation period for all business/commercial activities, and real estate is no exception to this rule. Stability normally follows upheaval and that is also the law of nature. Market sources and our interviews/discussions with senior real estate professionals and seasoned brokers indicate that registration issues with the government have slowed the pace of transactions in the sector, but our view is that this is a temporary short term phase. It may have added to the woes faced by those involved and with an interest in the property markets. But we see light at the end of the tunnel.

The key to making the real estate sector more attractive to real estate developers and house owners is to inject greater transparency in the entire process of research, documentation, and registration of the property assets with the local land registry departments. We believe that it would not be incorrect to say that at present it is a buyers' market with supply exceeding demand. The air of uncertainty surrounding the sector is expected to settle down once the market stabilizes and corrects its course. This course correction process is slow, but once the correction is in place, the transparency will incentivize market players.

Going forward, we see the sector as being sluggish in the short/medium term. However, seasoned market players with power of sustenance know that if winter comes can spring be far behind.

**FOR FURTHER INFORMATION, PLEASE CONTACT:**

**COLLIERS INTERNATIONAL PAKISTAN (PVT) LTD.**  
Suite # 1, Level 1, Harbour House, 37 A, Lalazar Avenue,  
Beach Hotel Road, Off M.T. Khan Road, Karachi

TEL +92 21 3561 2550/1/2  
FAX +92 21 3563 6382



Accelerating success

**About Colliers International Group Inc.**

Colliers International Group Inc. (NASDAQ: CIGI) (TSX: CIGI) is a top tier global real estate services and investment management company operating in 69 countries with a workforce of more than 12,000 professionals. Colliers is the fastest-growing publicly listed global real estate services and investment management company, with 2017 corporate revenues of \$2.3 billion (\$2.7 billion including affiliates). With an enterprising culture and significant employee ownership and control, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide, and through its investment management services platform, has more than \$25 billion of assets under management from the world's most respected institutional real estate investors. Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice to accelerate the success of its clients. Colliers has been ranked among the top 100 global outsourcing firms by the International Association of Outsourcing Professionals for 13 consecutive years, more than any other real estate services firm. Colliers is ranked the number one property manager in the world by Commercial Property Executive for two years in a row.

Copyright © 2018 Colliers International.

This document has been prepared by Colliers International for advertising. It may not be reproduced, either in whole or in part, nor altered in any way, without the prior written consent of Colliers International. The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this document.