



# Spading the real estate industry in Pakistan

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There is a commonly found motivation to invest in real-estate market in Pakistan. Rightly so, for the peer assurance that the investment is risk free, yields greater return, and greater degree of informality. However, as researcher, the question in hindsight is

***What is real estate industry in Pakistan? How does it fundamentally differ from the other real estate markets worldwide? And above all, if this is a misnomer?***

Real Estate is an important part of economic activity and wealth creation, partly because housing is a basic need. Secondly, real estate is a huge investment attraction worldwide. However, the real estate in Pakistan differs significantly because of excessive plot making, sprawl, filing system, and extravagant speculation. The webinar organised by the Pakistan Institute of Development Economics discussed the issues of industry in detail with voicing of stakeholders.

To begin with, there's dearth of research in this billion-dollar industry in Pakistan. There does not exist any real estate research centre in Pakistan nor does any university offers a dedicated degree in the subject. The industry itself is highly fragmented. There are multiple institutions with regulating jurisdictions in cities with no coordination, hence it is impossible to evaluate the total size of market and trends. Cash based Market

## **Sector or Industry?**

The Income Tax Ordinance 2001 does not consider Real Estate as the 'industry'. However, earlier this year the 30 billion construction package and several tax exemptions to construction and housing sector had underscored the importance of this industry. There is a huge gap between the DC value and real market value. People use these as proxies to evade taxes, under-invoice in official documentation, hence, poor performance in tax revenues.

The Real Estate Industry is further obstructing the competition through development of several kinds of real estate developments. Authorities-led estate is high-risk and expensive but yield higher return and quickly. Furthermore, there are cooperative housing societies, private housing societies, and various government department societies. The return differential makes this industry even more complicated.

"REIT Scheme" means a REIT Scheme as defined in the Real Estate Investment Trust Regulations 2015.

Real Estate is not considered as "industry" under the Income Tax Ordinance, 2001. In 2020, they added a new provision saying: from the 1st day of May, 2020, a person directly involved in the construction of buildings, roads, bridges and other such structures or the development of land, to the extent and for the purpose of import of plant and machinery to be utilized in such activity, subject to such conditions as may be notified by the Board. -Ikram Ul Haq

## Realtors

The Realtors are the agents that facilitate the transactions in real estate or construction industry. Without the strong centralized association, notwithstanding ABAD etc., these realtors are not registered, regulated; hence contribute to asymmetric information. The panelists urged to have some mechanism that could uniformly define the role of realtors and verify the trusted realtors.

## House Financing or Mortgaging

The house-financing through commercial banks is almost non-existent. According to Adil Khan, Head of Business Development at Zameen.com, out of 14,000 leads that were generated by the Zameen.com in previous year only 1 person was disbursed with house financing loans of 5.8 million Pkr. This market is highly cash based with little or no traces of transactions.

In Pakistan, usually the housing finance is offered by the commercial banks at the rates incremental to the policy rate. Since, the SBP policy rates were as high as the 13.75; the housing finance can be rationalised at the rates above than these. To start with, housing finance shouldn't be offered by commercial banks, and at best, could be done by subsidiaries with dedicated housing finance portfolio.

The idea of mortgaging is novel to the citizenry, and people are averse to it. The only house building finance commission has been performing poorly and has failed to simulate any significant contribution in industry.

## Multiple Transactions

The process of doing business in Pakistan is heavily wedded with multiple time-taking transactions. These transactions, needed approvals and NOCs are the impediments in process of doing business in any sector particularly real estate. According to panelists, there are score of transactions and NOCs required to do business in the sector. Any transaction starts with token money, then there are multiple No Objection Certificates required to construct anything on a plot.

## Permission Economy

The country is running a permission economy with highly-regulated processes to run businesses. Along with more than 20 certificates and several taxes including CVT, Stamp duty, advanced taxes etc. There are further permissions required if the land comes under the jurisdiction of special authorities such as Défense Housing Authority or Cantonment Boards etc. These supervisory bodies have their own charters with varying demands that make the business/construction more cumbersome.

Because of these complications, the cases registered in National Accountability Bureau are largely about the land grabbing, non-compliance, or based on the regulatory complications.

## Have we Digitized?

The government of Punjab has made strides in digitising the patwar system (the land registration, transfer etc. system) with help of Punjab Information Technology Board and other departments. Another effort, amongst others, was the Land Record Management and Information System (LRMIS). The government of Punjab appointed several Land Record Officers as well as Additional Directors; however the accounts in the webinar mentioned that the digitisation efforts have been poor, and 'patwar system is still alive.' Supporting this claim, a panellist mentioned that out of his 80 acres of land, a naala claimed 2 acres. It was the Patwari, who marked 2 acres extra on his 'naqsha' to compensate those 2 acres of land.

The shift is coming—FAR values and purchasing power is decreasing; it means the real estate industry shall have more competition and lesser revenue yields.

The government is heavily subsidizing the real-estate industry without understanding the needs of buyer side. As Shabbar Zaidi, former Chairman of FBR suggested, the demand of household is from the poor household while the real-estate investment is a play between upper middle class to yield returns and benefit from rented economy; or a tool to whiten their ill-earned money.

Arif Hasan recently highlighted in an article published in 'Dawn': "The seriousness of the housing issue in Pakistan can be judged from the fact that conservative estimates put the housing backlog at nine million units which is increasing at 300,000 units annually because of unmet demand. 62 percent of this demand is for lower income groups".

This is a summary of the webinar organized by the Pakistan Institute of Development Economics on Real Estate Industry.