

Dr. Nadeem Ul Haq

Vice Chancellor

Pakistan Institute of Development Economics

QUESTION 1: How do you define the real estate industry? Is there a difference between the construction sector and the real estate industry?

Real estate is by definition land that has been developed, land that has created value attached to it. Land is available all over the world but it does not automatically become 'real estate'. But if we do not allow construction, that too complex construction, the land itself cannot be called 'real estate'.

For instance, we have historically never allowed city centers to develop. Our preference instead has been to develop blocks outside cities. Over the past 70 years we have prioritized suburban growth and have practically killed the downtowns in the process.

In most of the world the value is created in downtowns. We don't want to develop value in downtown. We want to create blocks outside the city, which I call 'Plotistan'. Bare plots without attached complex construction is the cheapest and the worst form of real estate development that has little economic value. Real estate development that creates economic value are the likes of Rockefeller Center, Times Square etc. Here, unfortunately, for some strange reason, probably tied into the fact that government officials get plots, the emphasis is on plots and not on real estate construction.

QUESTION 2: In your opinion what the significance of real estate industry to the economy and whether it has the potential to support economic revival in Pakistan?

Real estate is the leading sector of the economy everywhere in the world. If you look at the US, one of the big things that NBI did a long time ago was develop leading indicators of the economy. Leading indicators are the ones that are

key throughout the business cycle. Of these indicators Real Estate perhaps is the leading one. The reason being very simple i.e. for humans to function, we need real estate. For me to function I need a house, for you to function you need an office, for us to shop we need retail, for us to travel we need transportation stations and hotels. Everything is real estate. Even construction of factories is a form of real estate.

All human activity begins with real estate. Real estate must be allowed to develop. Nobody is saying that real estate is the only thing that you develop. But if you handicap the real estate sector like we have for the last three years, you cripple the economy. For balanced development, we must give real estate the same space. Real estate development, which is construction, should not be just block making. We must give it the same space as we give every other sector in the country. For quite some time we here have argued that real estate is not an industry. Every activity that human being engages in is industry. By that I mean it is "industrial" on the part of individuals to make things happen.

QUESTION 3: What do you think are the major issues affecting the Real Estate Market in Pakistan; and whether it can even be called a 'Market'?

Right now in Pakistan, there is hardly a properly existing real estate market, because it's heavily overregulated due of the greed of officials to get plots or because of some strange thinking. We have crippled our downtowns and have built suburban sprawls. We have made our city's car dependent. We have forbidden the development of, for example, high-rise buildings. We have a huge excess demand, as we have noted in many PIDE publications, for real estate space. One might ask – What kind of space? There's a huge demand, let's say, for example, for retail space. People can't

get enough shopping malls. Shopping malls have been suppressed for 30 to 40 years. Shopping malls have only given permissions in recent years. PIDE has been talking about it for the last 30 years. There are hardly any cinemas in most cities. Playgrounds! – Again, hardly any playgrounds. We do have large stadiums, but no sport. So you can think of many real estate demands that are not fulfilled. So there is a Master Planning issue of social spaces or public spaces. The market will not provide them unless priorities first are set right. The second thing is the height restrictions. Apart from Karachi, there are abnormal height restrictions in every other Pakistani city. High restrictions are 30 or 40ft, which is crazy! It took me about 20 years of fighting with the bureaucracy to get to Lahore to have somewhat of our real estate in terms of building, but then what they did was they make it very difficult to get permissions. There is a mindset in our bureaucracy that we can't live in flats, we can't live in high rises and there will not be any mixed use of space. So we want to put people in separate compartments, taking up more space, away from downtowns, meaning in addition to taking up more space per person, they also have to be reliant on cars and other motor vehicles for mobility.

That's one part of your question. The second part of your question is in terms of market, there's no proper real estate market in the country and it is a huge problem. Whatever little real estate market exists, is over-regulated and complex construction is not allowed to happen.

Another important issue affecting real estate in Pakistan is that there are only two or three places/localities where people trust the titles. People trust the title in DHA, Bahria or CDA territories for instance. In other places the title is always suspicious and the government can also change the title whenever it likes as the supreme court did in terms of Nasla Tower where they killed down the tower. The Supreme

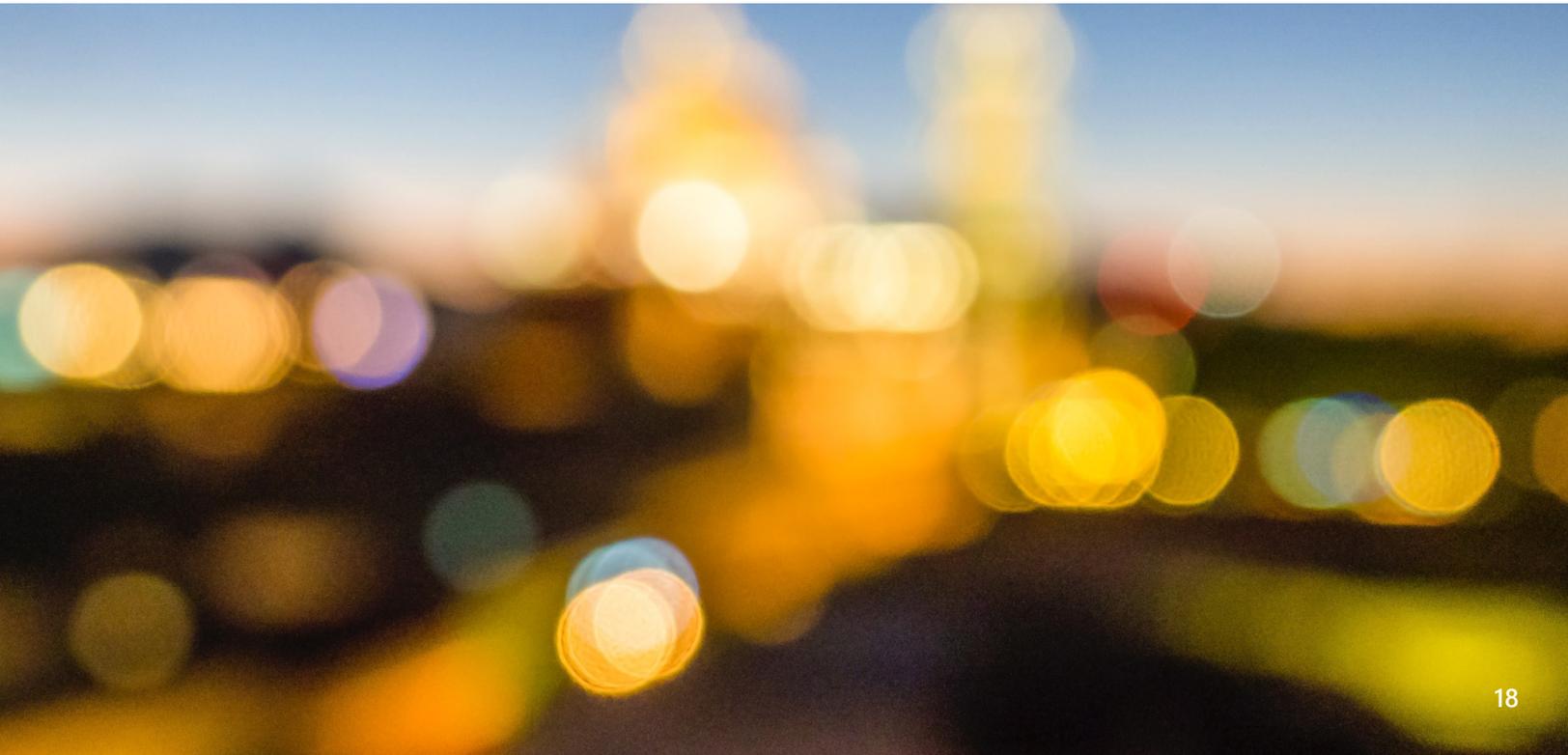
Court can change the character of many places so people are unclear about the title.

Another issue pertains to high transaction costs in terms of time and money when it comes to selling or buying property. It is easy to buy and sell property in DHA and Islamabad for instance, but not in other areas. Finally, the most important issue is perhaps the one of 'lack of information' – what is selling on the market? What is not selling on the market? What is a fair price? There different rates and prices. There are the market rates and then the government decided rates, which are in effect meaningless prices, but serve the purpose of confusing the market and unnecessarily complicate the transactions.

So overall it's a very complex situation with reference to the real estate industry owing to over-regulation, lack of imagination and pure bureaucratic inertia. Nobody wants to imagine how a market can be made. PIDE has just done some research on this. We are putting it out so that the market so a proper market can be setup, but ultimately it's the government and institution of the state that have to implement research findings.

QUESTION 4: How do you see the extent of locked or dead capital in the real estate industry or the real estate market and its economic consequences?

Well, again, PIDE has been writing about it for a long time, since 2005-06, there's a huge amount of dead capital in the country. I remember the the Prime Minister called me once and he said, I am going to pick this up. I'm going to do this, but I don't think he got any traction. Dead capital is the capital that is lying around without being developed. So let's put it this way. There's a piece of land that maybe was worth nothing 30 years ago, but today it's worth millions of



dollars. That value has been created. For instance, Mall Road in Lahore is not allowed to develop. It was the downtown of Lahore for many years. It was the downtown that naturally emerged. But it was not allowed to develop into a proper downtown with a thriving commerce scene. I ask, Why? – Now they are trying to develop a new downtown outside Lahore. So it's quite fabling!

It's like having your heart outside your body, not inside your body. So we would have a central business district ordained by the government on the outskirts of the Lahore, not on the inside Lahore, but that's how the bureaucratic mindset works!

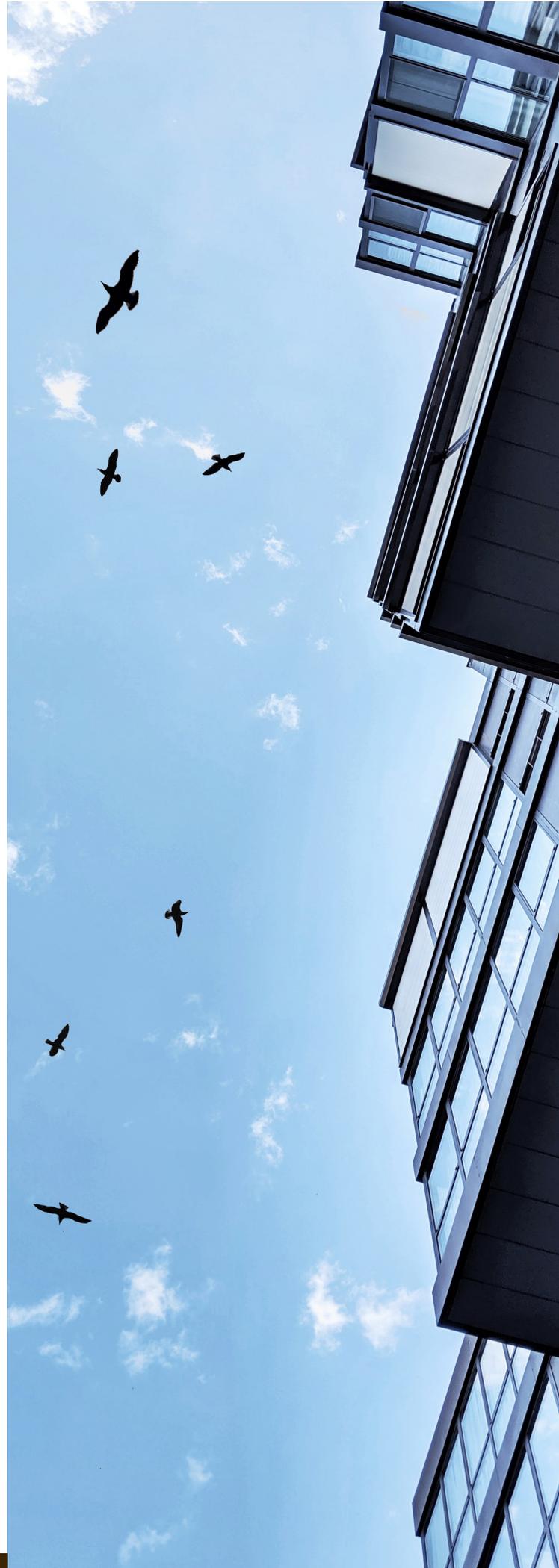
QUESTION 5: What are a few steps that we should take to modernize our real estate industry so that it can develop to reach the global standards?

First of all, deregulate and accept downtown areas, don't bend to the opposite side. Allow high rise construction along with mixed-use of space. Secondly, restrict the cars! We at PIDE have developed a model for developing parking. Parking is a revenue item, but can also serve to restrict motor vehicle based/car congestion. Right now we have prioritized the car, restricted walking, restricted bicycling, restricted all other forms of transport. Suburban development is very costly. It takes DHA 20 years to develop the sector. Other housing societies take 30 years to develop the sector. That is extremely costly. So instead of accepting that cost, they've changed the paradigm about real estate.

Real estate should be about inner city development and not suburban development. It's inner city development that leads the way. Our paradigm has been that we freeze inner city and downtown development. Again coming to the question of dead capital. For example, the whole Secretariat is a huge area which used to be a rural area. It's a huge, sprawling Secretariat, which is no longer necessary. We could actually build something there.

We could build a huge building there and yet save land and put the government in there. Similarly, if you think about it, there's a huge area around the Lahore Museum and it is being wasted. So we can use that land better.

Another important part of that dead capital is which somebody should research. There are two agencies that control a lot of land. For example, the evacuee property. Evacuee property was the property that Hindus and Sikhs left here in 1947. As of now that is 75 years ago! That property still exists, and there is an agency that controls it. Why are we not converting that property? We talk about privatization. Why don't we privatize that property and convert it into value? Right now that property is dead. There are people who are paying rent on these properties, which is peanuts. Similarly, there's another one called AUQAF. AUQAF has a large amount of inner city land also, that is underutilized in the sense that this land is given out at very cheap prices. Are not these all examples of debilitating real estate development and preventing cities to grow.





Question 6: How do you see the importance of more educated people being involved in the real estate industry, especially the real estate agents and their trainings?

No point if we educate people without a purpose. We can have educated real estate brokers, but we first need to get a market going. Remember, there are still no reliable titles in the country. When I own a real estate, any property, it is on the basis of a revenue record. I don't have a title. The title exchange process still relies on a cumbersome process and we need to change that. Secondly, information on sales is not available. The government has these fictional prices that are destroying the market. So unless we deregulate the market, unless we allow it to be properly structured, unless we allow some flexibility in real estate, curb the endless processes of permissions & NOCs, what's the point of just educating people?

Question 7: So what was the idea behind the recently launched real estate training course by PIDE? What will it help achieve in the long run?

I think this country needs a lot of education when it comes to real estate. We need to ask questions and not rely on foreign donors' consultants to dictate our policymaking. For instance, donors' consultants claimed that there is a shortage of 10 million housing units in Pakistan. This is not true at all. There indeed is some housing shortage, but it's not as large as 10 million. So there's a huge lack of understanding. The Prime Minister also believes in giving people subsidized housing. I would argue instead of focusing on subsidized housing we should first focus on creating employment and facilitating savings. Only then comes housing! Government has got the sequence wrong. How can you build houses without jobs? I don't know what you're giving people. It costs money to run a house. It costs money to pay your electricity bill. Our purpose of setting up the course is to try and tell people what real estate is because right now we don't know what real estate is. We think a plot is real estate. We think buying a file and waiting 20 years for that file to mature is investment. That is the most arcade form of investment in the world. If we had real estate, we would have value in the country.

We would add value, we would add jobs, we would add creativity. There would be so many followers because remember, your whole life revolves around real estate. From the time you wake up in the morning, you wake up in your bedroom to the time you go do your other functions. Everything is linked with real estate.