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Real Estate Market in Pakistan: Growing beyond Regulations

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The real estate market and allied construction industries have a pivotal role in economic development and jobs creation. However, the potential role of the real estate sector has been constrained by informal markets, lack of formal capital, and fiscal disincentives. This report suggests some policy, regulatory and fiscal measures to facilitate a more effective role of the real estate sector in economic development, employment generation and industrial growth by bringing in the in the formal market. Any comments can be sent at research@primeinstitute.org.

Contents

List of Tables

List of Tables in Annexure IV

List of Figures

Summary

This report argues that the real estate market and allied construction industries have a pivotal role in economic development and jobs creation. Together, they constituted 9.2 percent of GDP, and created 3.85 million jobs in 2014-15. However, the potential role of the real estate sector has been constrained by informal markets, lack of formal capital, and fiscal disincentives. In order to encourage formal market to invest in the real estate, the Securities & Exchange Commission of Pakistan issued Real Estate Investment Trust (REIT) regulations in 2008, which were revised in 2015. However, these regulations have not helped in sectoral development. In last seven years, only one REIT scheme has been launched.

The report suggests some policy, regulatory and fiscal measures to facilitate a more effective role of the real estate sector in economic development, employment generation and industrial growth by bringing it in the formal market. Given an estimated 10 million families not having their own housing and using a base figure of two million rupees as an average cost of a residence, the economic activity to cover this shortfall alone could amount to Rs. 20 trillion.

Some of the important impediments in the development of real estate have been identified as:

- Over taxation: for instance, in order to register a property, one has to pay around 9 percent (of the worth of property) in the shape of taxes and duties.
- Difficulties in land acquisition: simple registration of a property passes through 6 different procedures and can take up to two months, not to mention the time it takes after the registration to actually acquire the property.
- Undesirable zoning and bye laws restrictions in the country: zoning laws in urban areas to mark city centres and suburbs are creating a significant divide not only geographically but also in terms of property prices and available amenities.
- There is a lack of favourable mortgage financing in the country. In fact, it has declined by 90 percent over the past few years.

This study recommends that:

- To encourage real estate sector development through formal sector, cost of doing business in the formal sector should be reduced and a conducive tax regime should also be introduced.
- In order to improve the prospects of middle income housing, the government should work on improving mortgage finance facilities. The proposed Mortgage Finance Company is likely to face funding challenges. The Federal and Provincial Governments may need to kick-start the process through alternate means.
- The zoning and bye laws need to be reconsidered to encourage more investment in the real estate sector.

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Introduction

Housing services and construction collectively make 9.2 percent of the GDP as of 2015. Since it is linked with several other industries, the real estate sector has huge implications for economic development in terms of creation of employment and investment. While formal construction is the fourth highest contributor to employment generation, its share in the informal employment is even higher.

A well-functioning real estate market should efficiently allocate land, industrial, commercial and residential complexes and public infrastructure projects between supply and demand. Housing supply should adequately meet the demands of various income strata; businesses should be able to acquire or rent property as reasonable rates and owners and developers should face competitive pressure from other sellers. A competitive real estate market is also very transparent in terms of pricing. Pakistan has witnessed phenomenal growth in the real estate market over last ten years in the form of modern urban infrastructure like sprawling housing schemes, shopping and office plazas and leisure lifestyle. This growth has persisted along with informal nature of most transactions, exorbitant prices and absence of a supportive financial framework.

Despite a meagre presence of the mortgage financing, the real state has grown on the back of equity and savings, not all of which has been contributed by the documented economy. The increasing wedge between the market value and documented value of a property has forced the government to increase the taxes on real estate thus possibly widening the wedge itself. The real estate sector is also characterized with excess supply of property in selected urban locations without any downward pressure on pricing and a severe shortage of supply in low to middle income category of housing. When compared with regional economies like India, the real estate sector in Pakistan is actually hugely under-developed and its growth has missed a wide range of urban and development needs of a rapidly growing population.

The Securities & Exchange Commission of Pakistan issued Real Estate Investment Trust (REIT) regulations in 2008 (revised in 2015) to address some of these challenges and to expand capital market to the real estate. However in last seven years, only one REIT scheme has been launched, which suggests that the REIT regulations have not capitalized on the growth in the real estate sector. There are certainly other factors which might have inhibited the growth of REIT managed schemes. This report highlights some of these factors and comes up with practical recommendations to reduce the gap between the informal and formal sectors in the real estate market to encourage the flow and spread of savings and to expand the access of real estate ownership to all income groups.

Methodology and Scope

This study builds on a desk review and a series of interviews with stakeholders in the private and public sectors. A survey of selected real estate developers in Karachi, Lahore and Islamabad was undertaken to understand factors that inhibit the growth of real estate development especially in terms of international standards. Interviews with mortgage finance experts/bankers to understand the constraints in supply of capital for real estate market were also undertaken. Finally, meetings with SECP and SBP officials were conducted. Also, an interview with the head of HBFC was undertaken to determine challenges and available solutions in the mortgage industry.

Section I

Literature Review

Estimates on the demand-supply gap prove that real estate market has been unable to meet the demand arising from population growth and urbanisation in the country. Based upon the conventional estimates from population census (1998) and The Housing Policy (2001), it can be stated that Pakistan has a housing backlog of around 9 million units and annual addition in the existing backlog is around 300,000 units.[1] Another estimate revealed that demand-supply gap in urban housing is around 190,000 units and 25 percent of this gap is met by *Katchi Abadis*, 60 percent of this gap is accommodated through informal subdivision of agricultural land and 15 percent is met through densification of existing cities.[2] Chaudhry (2015) highlighted that the *Katchi Abadis* in Lahore are going beyond the control of the government and housing supply is unable to meet the demand for rental and owned accommodations.[3]

One of the major reasons for this increase in demand is growing population coupled with massive urbanization. During 1951, with the population of 32.5 million, Pakistan was the sixteenth most populous country in the world and its population rocketed up to 184.5 million[4] in 2013. At present the population of Pakistan is growing at a rate of 1.96 percent[5] and estimates[6] prove that with this rate of population growth, Pakistan will become the fifth most populous country by 2050. In 1981 share of urban population in the total population was 28.3 percent and it surged up to 32.5 percent during 1998. Currently, the urban population constitutes about 39 percent of the total population[7].

Unfortunately, there are only a limited number of studies available on the real estate market. Most of the available studies attempt to highlight the issues pertaining to this sector and suggest appropriate policy solutions.

Colliers International reviewed the developments of real estate market in three major cities of Pakistan i.e. Karachi, Lahore and Islamabad. Findings revealed that the real estate (residential and commercial) demand in Pakistan was rising in 2010. The demand for residential apartments was comparatively high in Karachi and Islamabad. However, the residential preference in Lahore

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[1] Shahid Mehmood, 2015, Low Income Housing Through Markets: Prospects, Policy and Strategy, PRIME Institute: Islamabad
[2] Jabeen et. al. (2015); Housing Crises in Pakistan: Review of Population Growth and Deficiencies in Housing Laws and Policies
[3] Dr. Sania Nazir Chaudhry (2015), Real Estate Market in Lahore, Centre for Public Policy and Governance, Forman Christian College, Lahore
[4] Planning Commission of Pakistan: Annual plan 2015-16
[5] Pakistan Economic Survey 2014-15
[6] Pakistan Demographic and Health Survey (2012-13), Pakistan Institute of Population Studies Islamabad
[7] Pakistan Economic Survey 2014-15

was mostly toward horizontal livings (detached villas) whereas in Islamabad and Karachi, it was shifting toward vertical livings (apartments). Moreover, it was found that the demand for offices was shrinking in Karachi due to poor infrastructure and security concerns and most of the offices were shifting to Lahore. As a result, demand for offices was rising in Lahore. During 2012, the demand for shopping malls outpaced supply and most of the newly constructed shopping malls received a much better response from the national and international businesses.

The analysis conducted by *Lamudi* highlights that there was a slowdown in the real estate market in 2015.[8] During the first quarter, buying and rental prices of land, apartments, houses and commercial property was on a declining trend. Unfavourable taxation policy was treated as one of the major impediments behind sluggish growth in this sector.

Ali et al. (2015) examined the socio-economic role of investment in the ownership of dwellings, for the period from 1981-2010.[9] They found that the population growth, remittances and political stability have a positive impact on the value-added in ownership of dwellings. They also found that depreciation of local currency against dollar and rising interest rate can increase the cost of investment which is why both these variables are negatively related to private investment in the ownership of dwellings.

Rehman (2014) highlighted the impact of real state on the economic indicators of Pakistan. The author stated that the real estate business is highly capital intensive. However, since it is linked with construction, steel, cement and many other industries, it is creating bulk of employment opportunities.[10] Due to minimal risk and high profit margin, the real estate business is reducing the charm of investment in other businesses. He highlighted that due to lower liquidity of real estate, this business is reducing the velocity of money which is then resulting into reduced economic activity.

The study "Development of Strategic Goals for Housing Finance in Pakistan" conducted by Infrastructure and Housing Finance Department, State Bank of Pakistan, noted that the share of urban population in total population of Pakistan was 34.9 percent during 2007 and two biggest urban centres, Karachi and Lahore, constitute about 62 percent population of 10 bigger cities. The study further stated that 45 percent of urban population is forced to live in slums because of the

[8] Real Estate in Pakistan - Quarterly Report - Q1 2015 - Lamudi

[9] Ali, G., Li, Z., Khan, K., & Anand, V. (2015). The Socio-Economic Role of Private Investment in Ownership of Dwellings. Stud, 4(2).

[10] Rehman, A. U. (2014). Real Estate Business in Pakistan and Its Economic Implications (No. 44770). University Library of Munich, Germany.

inability of financial institutions in providing enough credit to housing sector, lack of investment in infrastructure and lack of affordable housing and poverty.

Another important reason behind the poor performance of real estate market is high land ownership by the government. In Lahore, public ownership of land is 30 percent (out of total land) and it ranges from 20-40 percent in other larger urban centres. Much of this land is not used for productive purposes as it is vacant. A significant proportion of this public owned land is at prime locations and it can create a lot of opportunities for commercial, residential and industrial developments.

Niazi et al. (2007) also noted that the laws and regulations governing real estate are outdated and most of the land administration practices belong to colonial times. Housing finance is available mostly for high income groups and house building finance opportunities for builders and investors are very limited. Lack of property rights is another constraint. No common record of transactions is available in Pakistan. Basic information about the real estate sector in a district can only be found in that particular local and district revenue offices. They suggest that in order to overcome these constraints:

1. Rent control laws, building codes and zoning restrictions should be amended;
2. Government owned land should be used for productive purposes;
3. legal and regulatory issues such as: unclear property rights, in adequate titling and regulatory issues should be addressed;
4. Tax system should be reformed. At present real estate is subjected to stamp duty, withholding tax and capital gain tax. Multiple taxes are hindering the overall development of real estate market.

Housing Policy and Real Estate

National Housing policy was approved on June 22, 2001, with the objective of improving the poor quality of housing and to overcome the housing shortfall prevailing in the country. One of the main purposes of the policy is to ensure affordable housing for poor and middle income groups located in urban and rural areas. The policy highlights certain issues which are related to scarcity of land in the urban spheres, poor quality of existing housing stock, non-availability of microfinance at affordable rates and increase in the prices of real estate due to speculations.

The policy also states that financial institutions are offering mark-ups which are generally unaffordable for a larger percentage of population. In this context, the policy focuses on increasing the availability of land for housing, provision of incentives for ownership of houses and promotion of innovation in the housing sector through to minimise the construction cost. It aims to change the role of government from a provider to a facilitator and make government responsible for resolving, implementing and supporting all such policies that would ensure sufficient housing for all citizens.

Unfortunately, the National Housing Policy remains silent on addressing the impediments in the development of overall real estate business. It is solely directed towards addressing the issues prevailing in the housing sector - which is only one of the components of the real estate sector.

Role of Real Estate in Economic Development

The real estate sector can significantly contribute towards economic development. It is linked closely with construction and indirectly associated with around forty industries such as furnishing, heating/cooling/ventilation and services such as plumbing, water works and provision of other utilities. Hence, a thriving real estate sector can be potentially responsible for progress in the economy.

Lack of comprehensive data on overall real estate growth and projects limits deep analysis. There are a few indicators though, which we have used to understand the role of real estate activities in economic development.

The percentage share of construction and housing services in GDP over the past few years can be seen in the table below.

Table 1 Sectoral Share in GDP

	Construction	Housing services (Ownership of dwellings)
2007-08	2.8	6.4
2008-09	2.6	6.6
2009-10	2.7	6.7
2010-11	2.4	6.7
2011-12	2.4	6.8
2012-13	2.3	6.8
2013-14	2.4	6.8
2014-15	2.4	6.8

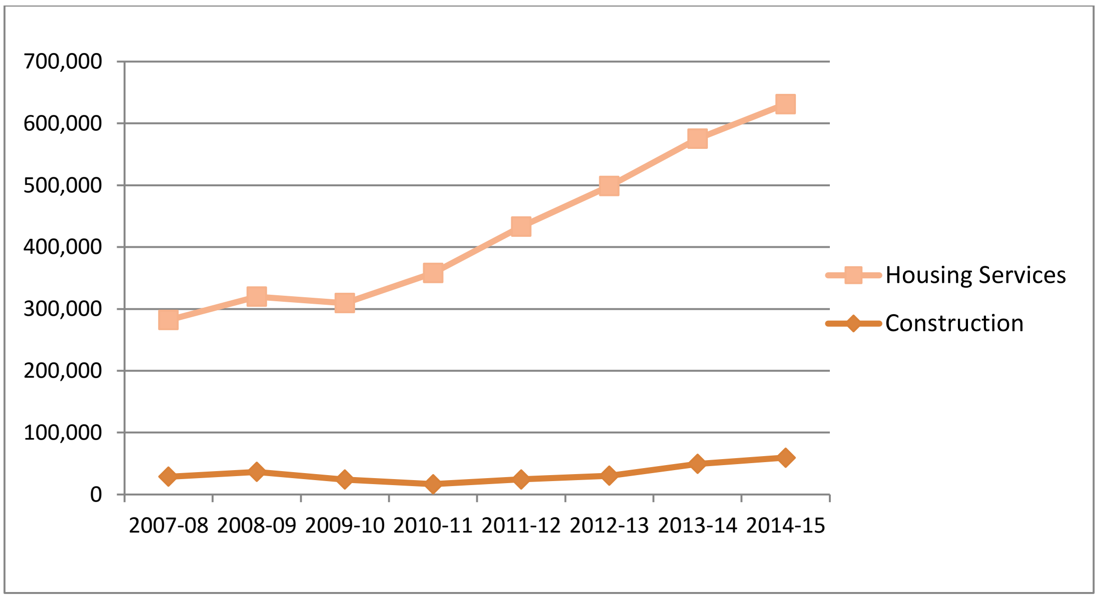
Data Source: Economic Survey of Pakistan

While sectoral share of housing in GDP has increased by 6.25 percent, the share of construction in GDP has declined by 14.29 percent. Overall, the share of housing has been more than construction.

The economic value of construction sector in Gross National Product (Constant Basic Prices 2005-6) was estimated at Rs. 259,271 million, whereas, that of Housing Services was Rs. 718,704 million for 2014-15.[11]

Investment trends in construction and housing also show that housing has been more popular and has witnessed substantial increase in investment over time. Investment in construction has been low with marginal increase from 2008 to 2015.

Figure 1: Gross Fixed Capital Formation (GFCF) Rs. Million



Data Source: Pakistan Bureau of Statistics

As part of economic development, construction and real estate activities have both been responsible for employment generation, especially for low skilled and low income groups. In the formal sector, Labour Force Survey 2014-15 reveals that construction sector is the fourth largest contributor in the employment generation with a share in total employment of 7.31 percent (compared to agriculture as the largest contributor with 42.27 percent share, manufacturing 15.6 percent and wholesale and retail trade with 14.64 percent share in total employment). The survey further indicates that real estate activities have a share of only 0.38 percent.

Interestingly though, the share of construction and real estate activities as part of total employment generation is much higher in the informal sector. During 2014-15, the share of total people employed informally in construction was 16.3 percent while the same was around 0.9 percent for real estate activities.

[11] Economic Survey of Pakistan 2014-15

Construction and real estate activities significantly contribute towards employment for semi-skilled labour. Assuming that this sector of the labour force earns between Rs. 5,000 to Rs. 10,000, it is evident from Tables 2 and 3 that semi-skilled workers are a majority amongst the people employed in both construction and real estate activities. Tables 2 and 3 show the number of employees in different wage groups in the construction and real estate sector.

Table 2: Distribution of employees by wage group (Real Estate Activities)

	Total Employees	up to Rs. 5000	5001-10,000	10,001-15,000	15,001 & over
FY13-14	**35,350**	2,200	13,260	8,840	11,050
FY14-15	**35,520**	2,220	8,880	13,320	11,100

Authors' Estimates based on data from Pakistan Bureau of Statistics

Table 3: Distribution of employees by wage group in Millions (Construction)

	Total Employees	up to 5000	5,000-10,000	10,001-15,000	15,001 & over
FY13-14	**3.83**	0.28	2.12	0.82	0.61
FY14-15	**3.85**	0.24	1.82	1.02	0.77

Authors' Estimates based on data from Pakistan Bureau of Statistics

The increase of total employees from 2013-14 to 2015-16 has been marginal for both real estate activities and construction. The highest proportion of labour force belongs to the semi-skilled segment (earning from Rs. 5,000 to Rs. 15,000) employing 2.84 million people supporting at least 17 million households.

While there may be numerous projects listed as planned and organized development of housing, retail and commercial infrastructure, the leading property portal www.zameen.com has listed almost 200[12] new ones in different cities of Pakistan. Table 4 depicts different new projects within the cities.

[12] There can be a little difference in total number of real estate projects in the country. This is because some projects include both commercial and residential schemes.

Table 4: New real estate projects in different cities of Pakistan

Cities	Plots	Homes	Commercial
Islamabad	14	38	18
Karachi	5	48	4
Lahore	16	35	15
Rawalpindi	3	12	6
Murree	1	7	1
Multan	2	1	2
Gujranwala	2	1	2
Gwadar	3	1	1
Bahawalpur	1	1	1
Faisalabad	1	1	2
Sheikhupura	1	--	--
Jhelum	1	1	--
Sialkot	--	1	--
Hyderabad	1	2	--
Peshawar	--	2	1
Sargodha	1	1	--
Quetta	--	--	1
Haripur	1	--	--
Sukkur	--	1	1
Mandibahaudin	1	--	--

Source: www.zameen.com

Section II

The findings revealed in this section are based primarily on the interviews conducted and the literature reviewed. Issues related to real estate market in general and (Real Estate Investment Trust) REITs in specific are discussed in detail in this section.

Real Estate Issues

In comparison to other developing countries like India, Pakistan is far behind in terms of real estate development. Currently, hardly 2,000 to 2,500 real estate projects are in progress all across Pakistan while in India, 50,000 projects underway only in the main cities. [13]

There seems to be a broad consensus on the types of concerns that usually arise in the real estate sector in different stages of development. These issues may range from problems in acquisition of land to floating the funds in the market once the project is completed. Each issue is discussed as follows:

1. **Taxation**

The process of buying property involves several payments in terms of fees and taxes. The first payment is usually made to a lawyer for preparation of a sale deed. The buyer then has to pay 1 percent registration fee and 1 percent town tax. Capital Value Tax (CVT) of 4 percent applies to all commercial areas and also to residential plots more than one *kanal* in the urban regions. For any and all property related transactions, a 'stamp duty' is imposed by the provincial government. This kind of fee varies from province to province and is charged as a certain percentage of the reported value of the property.

> *Tax system should be reformed. At present real estate is subjected to stamp duty, withholding tax and capital gain tax. Multiple taxes are hindering the overall development of real estate market*
> *Niazi et al. (2007)*

Table 5 depicts the types of costs associated with these procedures within the cities of different provinces. Similarly, Table 6 depicts the costs and time associated with the registration of a property worth Rs. 3,225,040. The details of procedures, time and associated costs, involved in the registration of a property within different cities are provided in the Annexure V of this report.

[13] Based on interview with CEO of zameen.com

Table 5: Associated costs with the registration of a property

Associated Costs with the registration of a property					
	Karachi	Quetta	Lahore	Peshawar	Islamabad
Stamp duty	3%	5%	2%	3%	2%
Capital value tax	4%	4%	4%	4%	4%
Registration fee	1%	1%	1%	1%	1%
Property tax	1%	1%	1%	1%	No cost
Legal Fee[14] (Rs.)	5,000	1,000	2,000	2,000	1,000
No Objection Certificate[15]	3000	50	50	50	50

Source: Doing Business Index (World Bank)

Table 6: Costs, time and procedures of registration

Assumed value of property is PKR 3,225,040					
	Karachi	Quetta	Lahore	Peshawar	Islamabad
Procedures	6	6	6	6	6
Days	58	52	30	42	39
Cost	301,253	355,804	260,053	320,304	226,802
Cost (% of worth)	9%	11%	8%	10%	7%

Source: Doing Business Index (World Bank)

On top of these taxes and payments, the government has recently introduced a 1 percent (refundable) withholding tax on residential and commercial immovable property valued more than PKR 3 million. [16] Land transfers may include several other fees.

Although the sale and purchase is usually carried out as per the market rate, the reported value that is taxed is the DC (district collector) rate, usually much lesser than the market value. While this practice raises several ethical concerns, real estate developers explain that the variability of prices in the real estate sector makes it difficult to keep track of the rates and change tax rate so often. Hence, the DC rates serve as a minimum standard where no one would pay less than that value to make sure there is no exploitation and reasonable taxes are being paid.

[14] Legal Fee is for hiring a deed writer or a lawyer to draft the sale purchase agreement.
[15] In all the cities (except Karachi) seller is required obtain *"Fard Jamabandi"* document from the local *Patwari*. In Karachi buyer is required to advertise the transaction in newspapers to invite objections.
[16] Source: Lamudi.com http://www.lamudi.pk/journal/qa-what-fees-are-involved-with-buying-property-in-pakistan/ Retrieved on February 17, 2016

One of the developers stated that the stamp duty in Punjab on property is as high as 6.5 percent. Taxes so high can also encourage people to resort to illegal practices. This high cost is further compounded by corruption, delays and obstacles that push the buyers and sellers into resorting to misuse of power of attorney and informal transactions[17]. According to one of the interviewees, when stamp duty was significantly reduced in Pakistan in the early 2000s – after Pakistan became a member of World Trade Organization (WTO) – the total revenues increased overall. Therefore, there is a need for rationalization of the current tax regime.

There is no compulsion in reporting the actual or market value of property. However, a seller who registers the market value is at a disadvantage since buyers of property would naturally prefer DC rates to reduce the amount of taxes. Similarly, buyers will face the same problem when they want to resell their property. Moreover, it has been observed that people who register according to the market rate are asked too many questions about the source of money – which may have been acquired informally.

2. Land Acquisition

Acquiring a piece of land, especially for large scale commercial projects or housing schemes can be quite cumbersome. Getting the required permits and approval of map/architecture takes up to a year or so. An advertisement is given in the newspaper to make sure that the title is clean. If no one claims the land, it is eventually transferred. Title verification is also done by the relevant authority like the Karachi Development Authority (KDA).

Even after the whole procedure is completed smoothly, a defect free property is not guaranteed. This creates a situation where government authorities such as National Accountability Bureau (NAB) and Federal Investigation Agency (FIA) may have to intervene and initiate inquiry against the developer. There have been numerous incidents reported where a single plot has been allotted to two people which creates dispute. The title issuing authority does not own the title which is why the issue of land title is ever growing. Developers often resort to bribery to get their title problem fixed.

There have also been many cases where the allotted plots on paper do not exist in actuality. Numerous cases remain pending in courts where people have completed all formalities to acquire the land which actually does not either exist or already belongs to someone else. The new management information system introduced as Land Administration and Revenue Management Information System (LARMIS) in Sindh and Land Record Management Information System (LRMIS) in Punjab is a good step which can potentially address this problem.

[17] Ishrat Husain, Housing Finance, Welcome Address on the occasion of the inauguration of Housing Finance Conference at Karachi on 11th December 2002

Elite private housing schemes face their own set of problems for both land acquisition and approvals. Bahria Town, for instance, provides a unique living standard to its dwellers, however, the process of developing this society has not been as easy as it may seem.

First, to build such a huge housing society, the entire piece of land has to be bought from individual owners. This can create hurdles for private developers since people seem to have an aversion toward cooperation with the private sector. If the same scheme is initiated by the government, process of acquiring land is much smoother either because people are willing to cooperate with them easily or because government is taken more seriously when it demands for something. There is a law that states that when majority of land is bought by someone, the remaining land pockets can be acquired at an average price. However, unfortunately, this law is not widely implemented. The private sector is usually not facilitated in these situations.

3. Zoning and Bye laws Restrictions

Zoning laws in urban areas to mark city centres and suburbs creates a significant divide not only geographically but also in terms of property prices and available amenities. The demarcated main city follows a 'master plan' which all developers must comply to before starting construction. This creates an apparent exploitation opportunity for the real estate agents in the main city to raise their prices exponentially.

It has been reported that CDA has approved only 13 buildings in the last three years, while 130 illegal buildings have been constructed apparently without its knowledge.

For elite housing schemes such as Bahria Town, getting approvals for maps is an agonizing procedure. The Rawalpindi Development Authority (RDA) and Capital Development Authority (CDA) impose strict standards such as at least one playground, graveyard and water filters within a certain radius – standards that these government entities themselves do not comply with. Even after compliance to all standards, something or the other is usually brought up to create unnecessary hurdles for self-interest.

The approval process is also generally pretty slow. It has been reported that CDA has approved only 13 buildings in the last three years, while 130 illegal buildings have been constructed apparently without its knowledge.

Higher property prices and complicated master plans can be problematic for developers who wish to develop low income housing societies. In Faisalabad for instance, since it is not allowed to develop residential areas outside the city radius, people living in the outskirts – usually illegally – cannot be catered for. Also, having a low income housing society inside the city radius would require sticking to features of the master plan that do not really apply to people of low income strata. For example, the master plan requires wider roads which reduces the saleable area even though people of this segment would seldom own cars. Also, it is obligatory to provide the same type of utilities and facilities in every housing society no matter what income level class it is being developed for. There are obligations in terms of open spaces within the household boundary that are also not necessary. These restrictions deter developers from investing in low-income housing.

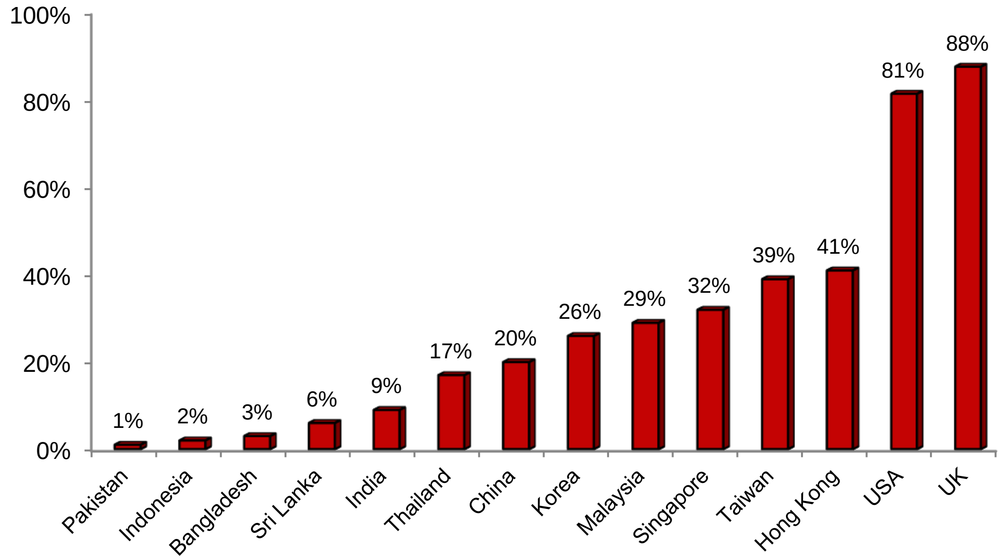
4. **Financing and Mortgage**

After fulfilling the legal formalities, private sector developers advertise their scheme to attract investment. This capital is then used for the construction and development of the project. Many schemes allow for payment in instalments typically spread over three to four years of the development period. Since the construction financing is entirely dependent on these instalments, even a few defaulters can stall the completion of the project.

House Building Finance Company primarily provides loans for residential property. Loans for commercial projects and housing schemes may be provided upon approval. However, the procedure for applying for financing to HBFC is quite elaborate. First, any scheme can only be financed if it is spread over 100 *kanals*. Second, there are numerous forms and details that need to be provided which discourage investors to apply for financing.

On the other hand, mortgage financing has failed to pick up in Pakistan. In fact, it has declined by 90 percent over the past few years. It constitutes only 0.5 percent of the GDP in Pakistan, whereas in other countries this contribution is quite high e.g. 10 percent in India. The average number of people living in a household in Pakistan is 6.35 while the same for India is 4.1. This holds true even though the population density for India is higher than Pakistan only because of favourable mortgage schemes that has facilitated the masses in owning their own property.

Figure 2: Mortgage Finance as a percentage of GDP



Source: Presentation by Chairman of Association of Mortgage Bankers (AMB)

Apart from other reasons, the main factor that discourages people from availing mortgage financing is the high rate of interests i.e. 10 percent, much higher than countries like Malaysia where the interest rate ranges from 2 – 5 percent. On top of that, the mortgage rate in Pakistan is liked with Karachi Inter Bank Offer Rate (KIBOR), i.e., it is not fixed but a floating rate, which makes it very risky for the borrower and can result in high level of defaults (a lesson that should be learnt from the developed markets like the USA in the recent years).

There are about 20 banks that provide mortgage financing[18] like Faysal Bank, Bank Alfalah, and Meezan Bank Ltd (MEBL). MEBL declares that it has been the leader in mortgage finance for the past 7 years with its Shariah compliant house finance products. Even as leaders, MEBL disbursed only Rs. 3 billion as mortgage in the last year – mortgages that were probably risk prone and unattractive as explained earlier.

As per a mortgage finance expert at MEBL, mortgage housing has the potential of Rs. 250 - 300 billion disbursement every year. According to estimates, there is a shortage of 300,000 houses every year, whereas the accumulated backlog is well over 9 million[19]. Even if building a house of reasonable quality costs Rs. 10 million, the annual cost of building 300,000 houses would be

[18] List of banks providing mortgage financing in Pakistan is available in Annexure II
[19] Shahid Mehmood, 2015, Low Income Housing Through Markets: Prospects, Policy and Strategy, PRIME Institute: Islamabad

around Rs. 300 billion. If 25 percent are mortgaged, the annual mortgage disbursement could be Rs. 75 billion.

There are significant hurdles which keep the mortgage market under check. First, most property and society owners fail to show No Objection Certificates (NOCs) which are a necessary requirement for banks for loans. Second, the Loan to Value (LTV) ratio in Pakistan is around 70:30, which means that if a property costs Rs. 10 million, only 7 million can be financed and 3 million has to be paid up front. LTV in other countries like Canada is about 95:5. Moreover, there is an elaborate eligibility criterion to apply for a loan which is pretty strict. Not many people are able to qualify for it. The time frame to return the loans is also very short – not more than 5 to 10 years in most cases – which is again not feasible for most of the prospective clients.

SBP is trying to roll out English mortgage law, which is very close to Islamic model. Under that law, the bank and borrower have co-ownership of the property until the time loan is paid off. This can help resolve the foreclosure issues.

The Supreme Court had not struck down the whole of FIRO Ordinance 2001 (Financial Institution Recovery). It was only its section 15, which dealt with foreclosure, which was disputed since it was against basic human rights. That section has now been revised in consultation with the PBA, and has now been drafted into a law. It has already been passed by the senate standing committee of finance and awaiting to be presented at the floor of the parliament. It is expected that the revised section 15 will be passed soon. That should allay the major set of concerns of commercial banks.

MEBL declares that it has been the leader in mortgage finance for the past 7 years with its Shariah compliant house finance products. Even as leaders, MEBL disbursed only Rs. 3 billion as mortgage in the last year.

Mortgage Refinance Company

The State Bank of Pakistan (SBP) has now set up Pakistan Mortgage Refinance Company (PMRC) in collaboration with commercial banks. The PMRC is aimed to resolve the issue of long term asset-liability mismatch faced by commercial banks**.** This long term liquidity to commercial banks will be provided against the housing loans already given by them. PMRC will purchase those assets and against that it will refinance the banks so they can lend more.

Essentially, the PMRC will purchase housing loans from commercial banks, which will become its asset and against those assets the PMRC will raise Sukuks for Islamic banks, or raise mortgage backed securities/mortgage bonds in the capital market for commercial banks. These bonds will also be long term, the appetite for which would normally come from pension fund, insurance etc. However, with very low level of funded pensions and life insurance, there may be low levels of appetite for fixed rate long-term bonds in Pakistan, especially since pensions are based on *Direct Contribution* system and life insurance on family *takaful* (Islamic insurance) system.

PMRC will get long term funding from two sources: 1) The PMRC will have a paid up capital of Rs.10 billion, 2) The World Bank will provide Rs.10 billion. It will be a dedicated cheaper credit concessional loaning for long term. The SBP has already had a few meetings with the World Bank and it is a part of their long term commitment to housing in the region.

The State Bank of Pakistan (SBP) has now set up Pakistan Mortgage Refinance Company (PMRC) in collaboration with commercial banks

PMRC will be supervised by the SBP and its regulations are currently being made. The regulatory framework for the kind of mortgage assets that will be sold to the PMRC is also being drafted, which will help ensure standardization of loan portfolio. In the PMRC model, the responsibility of the recovery of the loan will lie with the banks. If loan recovery stops, then PMRC will send the bad loan back to the bank and take a good loan against it instead.

"Mortgage financing and auto financing as key elements of private consumption not only provide strong forward and backward linkages to industrial and services sectors with a multiplier effect of 3 to 4, but also enhances the overall level of private savings. How does this happen? In absence of owner-occupied housing the owner does not have any compulsion or incentive to make any forced saving out of the current disposable income. But in his quest to obtain mortgage financing he has to save at least 20 percent of the total cost upfront as down payment in form of equity.

In addition, every month he has to allocate some extra income over and above monthly rental income to meet the mortgage instalment. Thus, this action results in forced or compulsory saving and if aggregated across households with identical behavior leads to an increase in level of domestic savings in the country. It is an empirically known fact that countries with well-established vehicles such as Mortgage Financing, Pension Funds, Benevolent and Provident Funds, Mutual Funds have higher domestic savings rate compared to those where such opportunities do not exist.

Housing finance provides an attractive opportunity as both profit margins and recovery rates on average are higher for mortgage finance than project and corporate lending."

-- Dr. Ishrat Husain

5. Absence of a Regulatory Authority

Pakistan does not have any regulatory regime for real estate developers. Building control authorities which exist at provincial levels significantly fall short of being comprehensive regulators. While they are only concerned with buildings, issues such as sale deed, ensuring utilities provision, overseeing maintenance, regulation of valuation; defaulted developers and so forth are not dealt with. A real estate regulator on the other hand is expected to do everything.

In the absence of such a regulatory authority, there are no proper records available which should ideally not only contain the property records but also history of structural changes. India came up with a developer regulatory regime in 2011-12. In Dubai, there is the Real Estate Regulatory Authority (RERA). Pakistan needs a real estate regulator to lower the cost and time of doing business and bring professionalism in the market**.** Currently, Pakistan is ranked at 138 in terms of ease of doing business and 137 for registering property (out of a total of 189) by the World

Bank[20]. A brief document on Guidelines for Financing to Housing Builders/Developers was rolled out by the SBP, but this document was neither as widely circulated as it ought to be nor was it implemented.

Return on Investment in Real Estate

Real Estate Business is perhaps one of the most profitable businesses in Pakistan. This business usually requires a huge amount of capital investment, however, the return is also higher than the return on investment in many other businesses. Risk free investment and a little amount of labour work are some of the unique features of this business. Due to these factors it is considered as a highly capital intensive business. Huge profit margins and limited requirement of entrepreneurial job are some other factors due to which this business also attracts the investment of retired government officials and overseas workers.

> *Pakistan needs a real estate regulator to lower the cost and time of doing business and bring professionalism in the market.*

Table 7 shows equity position and return on investment on plots from 2011 to 2016 in Pakistan and its three major cities (Lahore, Karachi and Islamabad) based on the data from zameen.com. The calculations reveal that the yearly equity position[21] (on investment on plots) during January 2011 to January 2012, was generally negative in Pakistan i.e. Rs. -134.2 per square feet (sqft) and hence, resulted into negative returns (-9 percent). However, during the same time period, equity position was negative only in Lahore (Rs. -53.88/sqft), whereas, it was positive in Karachi and Islamabad (Rs. 212.92 and Rs. 147.36 respectively).

The real estate business improved after 2012, mainly due to rise in prices of land. This rise continued till 2014. For example, if someone bought a plot in January 2013 at Rs. 1,684/sqft and sold it on January 2014 at Rs. 2542/ sqft, he gained Rs. 723.28 during the process. Similar trends were observed in Lahore, Karachi and Islamabad.

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[20] http://www.doingbusiness.org/rankings

[21] The calculation is based on the assumption that a plot is sold in the first month of a year and sold in the same month in the next year.

Table 7: Return on Investment on Plots[22]

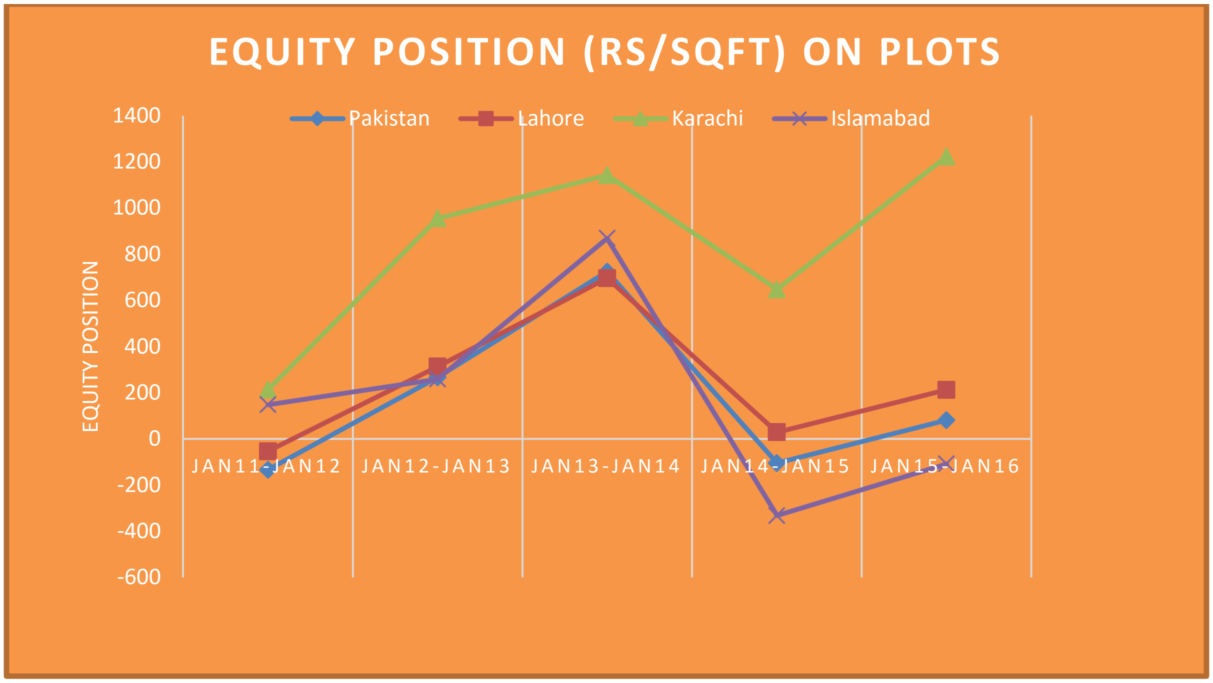
	Equity Position (Rs/Sqft)				Return on Investment (as % of worth)			
Year	Pakistan	Lahore	Karachi	Islamabad	Pakistan	Lahore	Karachi	Islamabad
Jan-11								
Jan11-Jan12	-134.2	-53.88	212.92	147.36	-9%	-4%	9%	12%
Jan12-Jan13	265.96	312.88	954.32	258.48	19%	21%	33%	18%
Jan13-Jan14	723.28	695.96	1,141.88	868.2	40%	36%	28%	47%
Jan14-Jan15	-105.36	28.68	646.96	-332.2	-4%	1%	11%	-11%
Jan15-Jan16	80.8	212.4	1,222.36	-109	3%	7%	18%	-4%
Jan11-Jan16*	1,484.8	1,896.12	5,630.92	1502.36	103%	131%	229%	126%

*5 year return on investment Authors' Estimates, Source: www.Zameen.com

However, after 2014, the equity position remained negative in Pakistan overall with negative returns on investment. Even though the state of affairs improved in the period 2015 to 2016, this rise was not as high as the peak achieved in 2013-14. The trend overtime for equity position can be clearly seen in Figure 3.

[22] **Calculations:**
Registration cost is 8 percent* of buying price = Stamp Duty (2%) + CVT (4%) + Registration Fee (1%) + Transfer of Immovable Property Tax (1%) (There is a minor difference in the registration cost within the provinces)
Data on Registration cost is taken from Doing Business Index
EP=>Equity Position= Selling Price - (Buying Price + Registration cost)
ROI=>Return on Investment = Equity Position ÷ (Buying Price + Registration Cost)
Formula of ROI is taken from Investopedia.com : http://www.investopedia.com/articles/basics/11/calculate-roi-real-estate-investments.asp
Return on Investment (ROI):
Yearly ROI:
Jan11 to Jan12 = Plot bought on January 2011 and sold on January 2012 and onwards.
ROI after 5 Years:
Jan11 to Jan16 = Plot bought on January 2011 and sold on January 2016

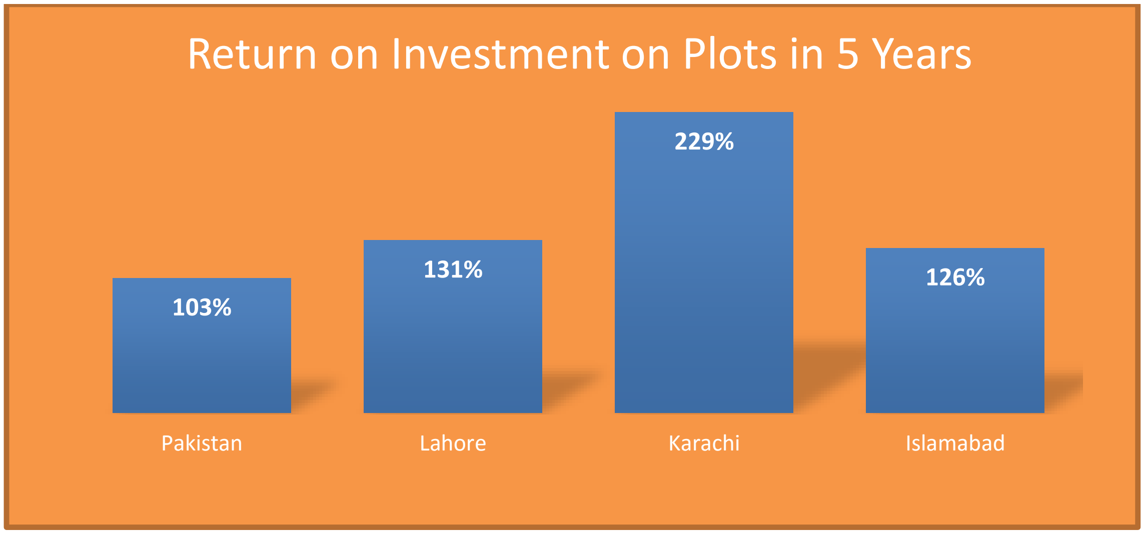
Figure 3: Equity Position on Plots (Rs/square feet)



Authors' Estimates, Source: Zameen.com and Doing Business Index (World Bank)

Our findings reveal that the return on investment on plots in Karachi is relatively higher than other cities. As graphed in Figure 3 the five years return on investment on plots in Karachi is 229 percent whereas, it is 131 percent in Lahore and 126 percent in Islamabad. This is counter intuitive given the distressed law and order situation in Karachi for the past few years. However, it shows the trust of people in real estate development undertaken by the private sector. Even if many of these investments are being driven by speculation, it is based on expectation of a future reward.

Figure 4: Return on Investment on Plots in 5 Years (2011-2016)



Authors' Estimates, Source: Zameen.com and Doing Business Index (World Bank)

Real Estate Investment Trust (REIT)

REIT is a security that sells like a stock and invests in real estate directly or indirectly. A research paper done by KASB Securities limited explains details of REITs in Pakistan, i.e. the need for REITs, its benefits and operational structure. The paper illustrates that as per REIT Regulations introduced in Pakistan in 2008 (revised in 2015), there can be three types of REITs. First is a Development REIT, second, a Rental REIT and third a mixture of the two known as a Hybrid REIT.

A Development REIT concentrates on real estate acquisition for purchase or construction. Once the construction is completed, in order to capitalize the capital gains for the investors, this kind of REIT is sold to either a Rental or a Hybrid REIT, or to any other investor interested in the project.

A Rental REIT on the other hand gains returns from rents. It primarily concentrates on management and maintenance of the property. This kind of REIT may have been acquired from Development REIT or any other real estate developer.

In order to get registered as a REIT Management Company (RMC), an application has to be submitted to the SECP in Islamabad. The regulatory framework for REITs, steps for incorporation of RMC and steps for launch of REIT scheme provided by SECP are all listed in Annexure III based on the Report on Non-Bank Sector Reform presented by SECP.

REIT Regulations 2015

In the Report on Non-Bank Sector Reform by SECP, there were a few recommendations put forth for consideration on REIT regulations 2008. Some of these recommendations included:

1. Decreasing the minimum fund size;
2. Not limiting stake of RMC at 20 percent;
3. Reducing the RMC capital;
4. Relaxing the maximum unit-holding limit of 10 percent
5. Allowing REITs in other major cities;
6. Reducing the residual lease period (currently set at 30 years);
7. Relaxing the cap of 30 percent use of customer advances.

In consideration of these recommendations, SECP issued revised REIT regulations in 2015 where some of these were incorporated. REIT regulations 2015 are generally more business friendly and provide better incentive for the investors and promoters. Notably, these revisions have been brought to increase the business volume of REIT schemes in the country. For example, the condition of increasing paid-up capital to Rs. 500 million has been withdrawn. The new regulations keep the obligatory distribution of dividends in tact where the RMC itself has to hold a minimum of 5 percent units with no maximum limits. Also, the explicit requirement of a minimum fund size of Rs. Five billion for the REIT fund has been withdrawn. While the 2008 regulations limited REITs to provincial and federal capital, the revised 2015 regulations allow for setting up RMCs in any city condition to approval.

> *REIT regulations 2015 are generally more business friendly and provide better incentive for the investors and promoters.*

REIT Regulations 2015 also seem cognizable of investors' protection. For example, an upper limit of five years has been introduced for the construction period under Development REIT. Also, arrangement of insurance / Takaful coverage in relation to the Real Estate has been made compulsory. The new condition of at least twelve months successful tenant occupancy record and 80 percent tenant occupancy at the time of application has been introduced. In some cases, new regulations seem over-bearing e.g. now the SECP would require a diligence certificate only from a list of pre-approved lawyers.

Market Response to REIT has been lukewarm

REITs are a great instrument to bring the large real estate and construction sectors in the fold of formal economy in addition to providing the structure and discipline to develop large infrastructure and housing projects. REITs can also enhance the saving rate by providing attractive returns to small savers.

From the time REIT Regulations were first introduced in 2008 up till 2015, only nine organizations have applied to register as RMCs,

From the time REIT Regulations were first introduced in 2008 up till 2015, only nine organizations have applied to register as RMCs, out of which 3 have been approved, namely AKD Securities, Eden Developers and Arif Habib Limited. Only one has successfully launched a project i.e. the Dolmen Mall by Arif Habib REIT Management Company. It took five years for this RMC to be notified.

REIT Growth: Inhibiting Factors

The reasons as to why REIT has not picked up are closely tied to the current state of real estate market and its issues.

The first reason is the obvious issues in title of a property. It is believed by some that the automation in Sindh (LARMIS) and Punjab (LRMIS) will resolve this issue since *patwari* role will be minimized and all properties will be digitally recorded. However, there are those who remain sceptical simply because the matter of 'owning' a title is different from simply 'issuing' it. Hence, unless an authority owns titles, the problem of title shall remain.

The application process itself is quite cumbersome with too many approvals required. The requirement of the project value being at least 200 million in 2008 has been reduced to 50 million in 2015 which is somewhat positive.

Second, many developers are investing money that is obtained from undocumented sources, so they would never qualify for REIT as it requires complete disclosure. Earlier, REIT regulations did not allow a mortgaged property to be considered, however there is now an amendment in this allowing a property to be considered if the loan issued against the said property is not more than 40 percent of the property value. However, before that approved property is transferred to REIT trust, all encumbrances will have to be cleared. Fourth, the approval period for notification is too long. During that time, the invested piece of land is just sitting idle waiting for SECP's approval. Also, the procedure requires that the property is approved before actually buying the property. Striking a deal with a seller can be quite a challenge because of this restriction. Fifth, the application process itself is quite cumbersome with too many approvals required.

The requirement of the fund size has been reduced from 2 billion to 200 million in 2015 which is somewhat positive. However to qualify for a listed company, the RMC still has to create a paid up capital of Rs. 50 million.

The benefits of obtaining an RMC license are few. Of these few benefits, first is that since RMCs have gone through a rigorous process to ensure trust and authenticity of the company, there is little chance that the project will be halted due to disputes in title or fraud by the developer – something unfortunately common in Pakistan. REITs can also provide ease of liquidation of assets into cash primarily because of their being traded on the stock exchange.

One other possible advantage is that the transfer duties and taxes for REITs are preferential. Property transfer to and from REITs attract CVT at 0.5 percent and Stamp duty and Registration fee at 0.25 percent each. These preferential rates have been notified by Sindh and Punjab governments only. The concession has been drafted in a manner that it will not cause any revenue loss to the government. Other provincial governments should also follow the suit.

The catch here is that while developers commonly report the DC rate of property for taxes, the RMC has to register at the market value. This can actually be a significant disadvantage for developers when the difference between the rates is so high that even lower taxation cannot compensate for it. Moreover, according to a government official, since many developers already evade taxes, there is no real incentive for developers to join REIT. Not only do they want to avoid their own taxes but in order to ensure project sustainability they also cannot share the information of their clients with the taxman.

The raison d'etre of REIT is to allow developers to raise finance and do projects beyond their financial capacity without going to the banks. However, since developers can already raise public money for their projects there is no incentive for them to raise it from REIT – unless it is for huge projects or when there is cash flow mismatch for projects that do not immediately sell.

The fiscal policy as of now does not provide any incentives for investment in REIT schemes. Our analysis suggests that income from a real estate business carried out under a company structure is effectively taxed at a much lower rate as compared to REITs, as by carrying out real estate business through a company structure can create tax shield through borrowing and retention of profits rather than pay-out.

One other possible advantage is that the stamp duty on RMCs for acquiring land is only 0.25% of the market value of property while real estate in general have a stamp duty of at least 2%. The catch here is that while developers commonly report the DC rate of property for taxed, a RMC has to register at the market value.

REITs also bear extra cost of listing, transfer of property to a Trustee and compliance and monitoring.

Recommendations

1. Reform in Tax Structure

If the property tax, registration, recording and retrieval system is made more customer-friendly, the provincial and local governments can earn higher revenue yield. This will also reduce informal housing markets by incentivising complete disclosure.

Property is registered as per the DC rates and also taxed accordingly. Since the stamp duty is pretty high, if DC rates are abolished, it would seem unfair that developers pay such high stamp duty on the market rate since they incur many other costs during land acquisition. If market rate is to be considered the standard rate, the stamp duty should be reduced. Preferential rates offered to REITs by the Sindh and Punjab governments offer a good model to emulate by other provincial governments. This preferential rate scheme should be made applicable to all entities rather than REITs only. This is necessary to encourage documentation of the real transaction values.

Tax on dividends received on REIT investments by companies should be 10%, down from 25%.

For REITs, the 25 percent tax rate on dividends received by a company from REITs has almost halted development of this industry and should be brought down to 10 percent, which is charged on dividends received from a stock fund. Investments by companies in a REIT fund are critical not only to provide critical resources but it also acts as a lead catalyst to encourage small savers/individuals to invest.

The capital gain tax exemption available to residential REITs as per the 2015-16 budget should be extended to include all kinds of REIT schemes as it was available till June 2015.

In order to encourage buyers to properly document their transactions, the amount paid for acquiring homes by tax-registered persons should not be subject to enquiries as to the nature and source of the amount if it is such person’s only place of residence.

2. Improved Mortgage Options:

To facilitate access of the lower and middle class of Pakistan to real estate, the State Bank may consider softening the eligibility criteria for acquiring mortgage and increase the LTV (Loan to Value) ratio with longer time period of repayment. This will also help the government to achieve its goals to expand low income housing.

> *"… institutional investors such as insurance companies, provident funds, pension funds etc. have not actively explored real estate development and housing markets as an investment vehicle. There is a natural fit between their appetite for long term assets and the middle class income groups' aspirations to acquire housing and pay their instalments over a long period of time. The institutional investors should invest in real estate related equities, long term lending or mortgage-backed securities. There is a natural alliance whereby the retail distribution of mortgage loans is handled by the commercial banks through their network while the wholesale business is the domain of the institutional investors*".
>
> -- *Dr. Ishrat Husain*

While mortgage finance is indeed a major problem, the launch of PMRC, growth of Islamic mortgage model and expected amendment in foreclosure laws should allay most concerns of the bankers.

3. Improved Zoning Laws

The existing zoning laws are outdated and unfriendly in terms of promoting investment in the real estate sector. Construction guidelines should be amended as per need of the project which may be residential or commercial. For instance, the construction laws for low income housing projects should not include compulsion of wider roads etc. In fact, cities should be made hubs of economic activities by relaxing zoning and building regulations[23]. According to Emiel A. Wegelin, (GIZ Program Coordinator, Cities Development Initiative for Asia, Philippines) who spoke at the international conference on "Framework for Economic Growth, Pakistan" held in Islamabad 13 - 14 July, 2011:

> "Overall direction of deregulation and retreating government is required. Let government and the private sector do what they are best placed to do, but do not throw out essential provision of public services with the privatization. The Planning (**compact development, more attention to mixed land use zoning**) and housing (**low income housing space standards; incentives for private sector rental housing**) directions are by and large supported."

[23] http://www.pc.gov.pk/feg/PDFs/2012/FEG-Final-Report_2-1-2012.pdf

Conclusion

The real estate sector has witnessed islands of growth in urban housing, however, it has failed to fill the gap of greater urban development including housing as well as commercial infrastructure. In addition, the growth has been largely driven by informal markets. The government introduced REIT regulations to bring formality in this sector and to use capital markets for sharing the fruits of real estate growth with wider public. However, in ten years or so, the market has not responded to these regulations. REIT experiment is largely still-borne.

If real estate sector has to play a critical role in economic development of the country, fundamental changes need to be introduced in the real estate market including reforms in property rights, transparent pricing, improved mortgage framework and an equitable taxation regime which will encourage investment in the formal real estate sector. This study has highlighted some of these issues and will hopefully start a result-oriented debate leading to reform, growth and development of real estate sector in Pakistan.

Annexure I

List of Interviews:

SECP (Islamabad):
1. Muhammad Afzal (Director REIT)

State Bank of Pakistan (Karachi):
2. Anonymous

HBFC:
3. Pervez Said (CEO HBFC)

Board of Revenue (Sindh):
4. Zulfiqar Shah (Member Reform Wing and Special Cell)

Real Estate Developers (Lahore):
5. Sahir Rasheed (CEO Sahir Associates)
6. Zeeshan Ali (CEO Zameen.com)

Real Estate Developers (Islamabad):
7. Arif Jeewa (Senior Vice President ABAD and CEO Capital Residencia)
8. Jawad Aslam (CEO Ansaar Management Company)
9. Brig. Tariq Zaman (Head Garden City Projects, Bahria Town)

Real Estate Developers (Karachi):
10. Nasim Beg (CEO Arif Habib Consulting)
11. Zaigham M. Rizvi (Chairman AKD RMC and Former Chairman HBFC)
12. Muhammad Ejaz (CEO Dolmen Arif Habib RMC)
13. Anwer Ahmed Sheikh (CEO AKD RMC)

Mortgage Experts:
14. Muhammad Raza (Group Head for Mortgage/Other consumer finance at Meezan, Karachi)
15. Muhammad Sheraz (Regional Sales Manager - Expert in Retail Banking - Consumer Finance & Retail Risk at Faysal Bank Ltd, Islamabad)

Annexure II

List of banks providing mortgage finance in Pakistan[24]:

1. Al Baraka Bank
2. Askari Bank Limited
3. Bank Al Habib
4. Bank Alfalah Limited
5. Bank Islami
6. Bank of Khyber
7. Dubai Islamic Bank
8. Faysal Bank of Pakistan
9. Habib Bank of Pakistan
10. House Building Finance Corporation
11. KASB BANK
12. MCB Limited
13. National Bank of Pakistan
14. NIB Bank
15. Soneri Bank Limited
16. Standard Chartered Bank
17. Summit Bank
18. Tameer Bank a Micro Finance Bank
19. Bank of Punjab
20. United Bank Limited

[24] http://www.homespakistan.com/index.php

Annexure III

Regulatory Framework for REITs in Pakistan (2008) – taken from SECP Report in Non-Bank Sector Reform

Regulatory framework
i. Two tier system; comprising a RMC and a REIT scheme.
ii. Minimum capital prescribed for RMC - Rs. 200 million.
iii. RMC required to hold at least 20% units of a REIT scheme.
iv. A REIT scheme (fund) to be structured as a trust and operates as a closed-end fund.
v. A REIT Scheme can be a Developmental REIT Scheme (which develops land and properties for sale) or a Rental REIT Scheme (which buys properties and distributes rent) or a Hybrid REIT Scheme (which is the combination of Developmental and Rental REIT Schemes).
vi. Minimum fund size for rental and Development REIT Schemes is Rs. 2 billion each and the same is Rs. 3 billion for a Hybrid REIT scheme.
vii. The Fund is to be listed on stock exchange wherein public will subscribe.
viii. Single investor can hold up to 10% units of a REIT Scheme.
ix. Government institutions can hold up to 55% units of a REIT scheme.
x. REITs can be setup in federal and provincial capitals.
xi. REIT Schemes cannot use borrowed funds but can utilize customer advances up to 30% of the value of a REIT Fund.
xii. RMC is required to hire the services of a manager to maintain the property and to engage professional valuer (appraiser) for valuation of the property.
xiii. RMC can charge fee up to 1% of the initial REIT fund of a Developmental REIT Scheme and up to 3% of annual operating income in case of a Rental REIT Scheme.

Steps for Incorporation of RMC

Step No:	Steps	Description
I	NOC for incorporation	NOC from SECP for incorporation of RMC, provided the proposed sponsors and directors meet the fit and proper criteria.
II	Incorporation as Public Company	Incorporation of RMC.
III	License under the NBFC Rules and REIT Regulations	License from SECP to carry out REIT Management Services.

Steps for Launch of REIT Scheme

Step No:	Description
I	Approval of Real estate.
II	Approval for appointment of valuer.
III	Valuation of real estate.
IV	Name of REIT scheme.
V	Appointment of trustee.
VI	Clearance of draft trust deed.
VII	Approval of Business plan of the project.
VIII	Preliminary engineering design.
IX	Registration of REIT scheme.
X	Offering document for public subscription.

Source: SECP Report

Annexure IV

Table A Time and Costs associated with the registration of a property worth in Karachi

Assumed value: PKR 3,225,040			
No.	**Procedures**	**Time to complete**	**Associated Costs**
1	Advertise the transaction in newspapers to invite objections	8 days	3000
2	Hire a deed writer or a lawyer to draft the sale purchase agreement	1 day	5000
3	Pay the stamp duty, capital value tax, registration fee and transfer of immovable property tax	1 day	PKR 290,253 (3% stamp duty + 4% capital value tax + 1% registration fee + 1% transfer of immovable property tax)
4	Obtain a non-encumbrance certificate from the Town Nazim	1 day	No cost
5	Obtain stamp paper from the stamp office	1 day	No cost
6	Execute and register the sale deed at the Registration's authority	38 days	No cost

Table B. Time and Costs associated with the registration of a property

Assumed Value: PKR 3,225,040								
	Time to Complete (Days)				**Associated Costs (Rupees)**			
	Quetta	**Lahore**	**Peshawar**	**Islamabad**	**Quetta**	**Lahore**	**Peshawar**	**Islamabad**
Obtain a Fard Jamabandi document from the local Patwari	4	3	3	3	50	50	50	50
Pay the stamp duty and the capital value tax	1	1	1	1	290,253 (5% SD + 4% CVT)	193,502 (2% SD + 4% CVT)	225,753 (3% SD + 4% CVT)	193,502 (2% SD + 4% CVT)
Obtain stamp paper from the Treasury Office	1	1	1	1	No cost	No cost	No cost	No cost
Hire a deed writer or a lawyer to draft the sale purchase agreement	1	1	1	1	1,000	2,000	2,000	1,000
Execute and register the sale deed, pay the registration fee and pay the transfer of immovable property tax	20	5	8	3	64,501 (1% RF + 1% IPT)	64,501 (1% RF + 1% IPT)	64,501 (1% RF + 1% IPT)	32,250 (1% RF, No IPT)
Transfer the property title to the new owner at the Revenue Office	25	19	28	30	No cost	No cost	No cost	No cost
Total	52	30	42	39	355,804	260,053	320,304	226802