



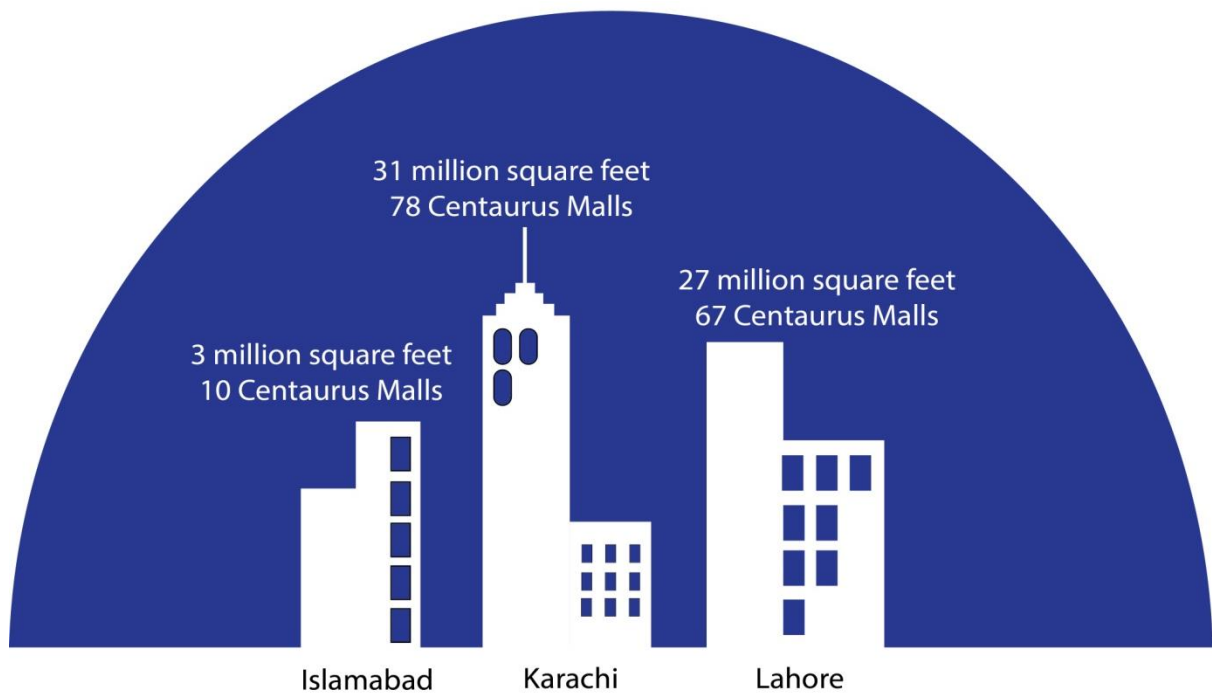
## PRIME Analytical Reports

*Unlocking Business Potential for Growth*

**Issue: 10, Vol: 1**

**May 2016**

# Modern Retailing: Prospects for Retail Complexes in Pakistan



PRIME Analytical Reports are independent evidence based studies on the investment climate, economic policies and demographic changes in Pakistan, prepared to improve understanding of business and policy challenges faced by the country's private sector to help steer it on path of growth. To find out more please visit:

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Office No. 401, 4<sup>th</sup> Floor, Muhammad Gulistan Khan House, 82-East, Fazal-ul-Haq Road, Blue Area, Islamabad.

[www.primeinstitute.org](http://www.primeinstitute.org) | [research@primeinstitute.org](mailto:research@primeinstitute.org)

**Modern Retailing:  
Prospects for Retail Complexes in  
Pakistan**

**Issue: 10, Vol: 1**

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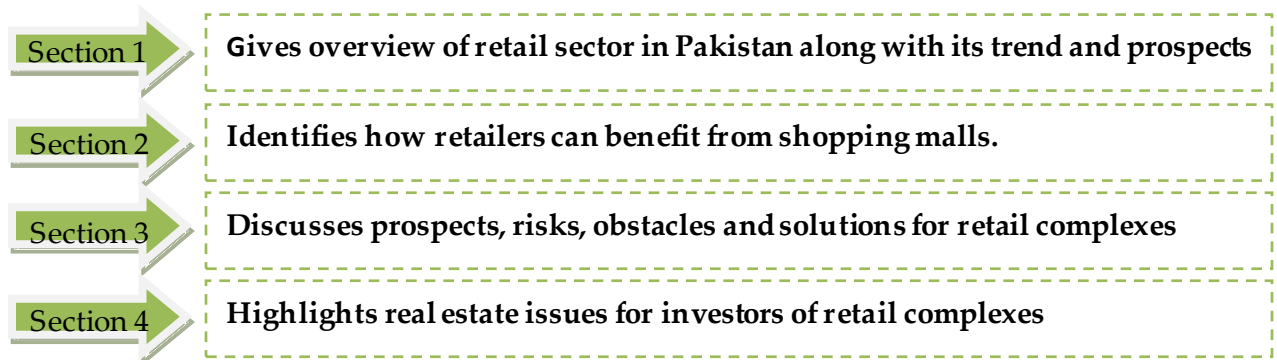
## Introduction

The land-use pattern is undergoing a transition in Pakistan. The commercial demand for real estate is increasing and is expected to be dominated by mixed-use establishments, shopping malls, retail spaces and office units in 2016<sup>1</sup>. It can be anticipated that through current trends and predictions that retail-related demand will headline this new pattern of commercial land-use.

Retail demand for real estate is a derived demand based on the performance of the retail sector which has stayed robust in growth despite the economic challenges of the country. This outlook of the retail sector in Pakistan is spurred by a rising trend in population and increasing urbanization. The result is the emergence of *modern retail* such as superstores, hyper-stores and shopping malls mainly in the three large metropolitans of the country i.e. Karachi, Lahore, and Islamabad/Rawalpindi.

This new face of modern retail in Pakistan is in line with global retail trends, where traditional retail is giving way to shopping malls. In case of developing countries, in particular, modern retail seems set on an upward trajectory. However, while there have been numerous malls and superstores built in the past 15 years in Pakistan, only two modernesque all-purpose retail shopping malls have been built – Centaurus Mall in Islamabad and Dolmen Mall in Karachi<sup>2</sup>.

The purpose of this report is to highlight reasons that underlie this minimal footprint of shopping malls<sup>3</sup> in Pakistan. Based on interviews with retailers who already conduct their businesses in shopping malls, the report attempts to make a case for shopping malls for retailers. Similarly, through interviews with retail industry experts, reasons behind the scarcity of shopping malls are highlighted and solutions to expand it are proposed. Investor viability of such an enterprise is also discussed. Finally, since building a shopping mall is intertwined with real estate, real estate-related issues for investors of shopping malls are identified as well.



<sup>1</sup> <http://www.lamubdi.pk/journal/pakistan-real-estate-2016-what-does-the-future-hold/>

<sup>2</sup> This statement is attributed to Mr. Yousuf Jamshed, CEO LXY Global.

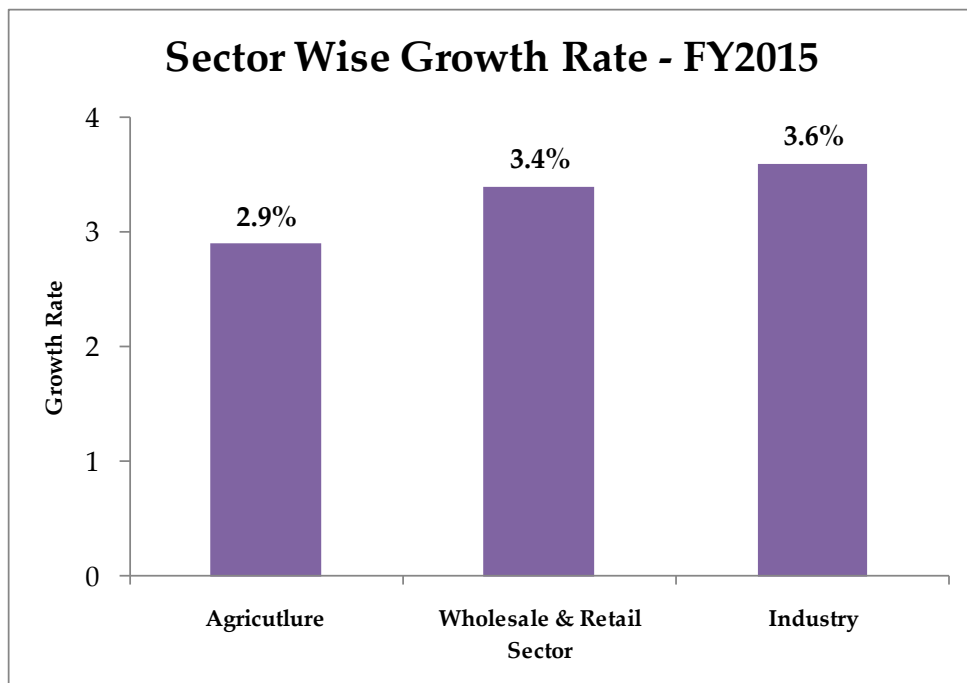
<sup>3</sup> Unless otherwise stated, shopping malls refer to all-purpose retail shopping malls in this report hereon.

## 1. Overview of Retail Sector in Pakistan – Trends and Prospects

The size of the wholesale and retail sector in Pakistan is placed at Rs 2 trillion in 2015 up from \$1.7 trillion in 2011<sup>4</sup>. It constitutes about 18 percent of GDP in 2015 and provides employment to 17 percent of total labor force<sup>5</sup>. Accordingly, retail sector is the third largest sector in Pakistan behind industrial and agriculture sector<sup>6</sup>.

Growth in retail sector is also decent despite sluggish growth performance of other sectors. Figure 1 clearly shows that the growth of retail sector has been relatively higher than agriculture sector and just under that of industrial growth rate for FY2015 (Box 1 presents the statistical structure of the retail sector in Pakistan).

**Figure 1: Sector Wise Growth Rate Comparison**



Source: Annual Report 2015, State Bank of Pakistan

Experts attribute this rather bullish outlook of the retail sector to factors like urbanization, well-build road network connecting cities, increase in urban per capita income, a relatively better security outlook of the country, higher returns and an increasing population trend with a demographic breakdown bent towards young population<sup>7</sup>. It can safely be predicted

<sup>4</sup> Retail business booms in Pakistan's Punjab province, *The Gulf Today* 29<sup>th</sup> March, 2016

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

Banking on history, British brands thrive in Pakistan, *Dawn* 5<sup>th</sup> December, 2012.

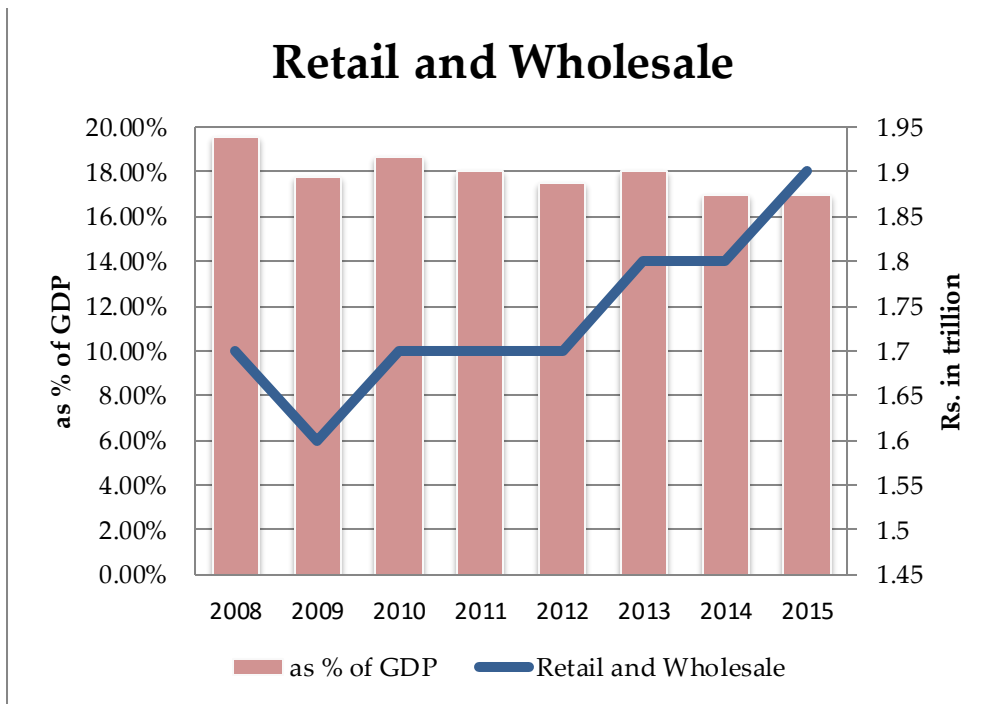
that the retail sector will remain lucrative in the coming years. Figure 2 shows the recent trend in retail and wholesale sector of Pakistan.

**Box 1: Statistical Structure of retail sector in Pakistan**

There are about 2 million retail outlets in Pakistan for 180 million people. India, on the contrary, has 15 million retail outlets for 1.2 billion people. In Pakistan, out of the 2 million retail outlets, about 800,000 sell fast-moving consumer goods (FMCG). Two-thirds of these FMCG outlets comprise of neighborhood “kiriyana” stores which are also called general stores, pan shops, department stores, and medical-cum-general stores.

The optimistic picture of the retail sector is inducing foreign brands to venture into Pakistani retail market. This trend has in turn made investment in building shopping malls profitable in the long run. Resultantly, not only in big cities, but even in smaller cities construction of shopping malls is already underway<sup>8</sup>. The emergence of this “mall culture” is changing the face of retail sector in Pakistan.

**Figure 2: Retail and Wholesale Sector in Pakistan**



Source: Pakistan Economic Survey, 2014-15

<sup>8</sup> Retail business booms in Pakistan’s Punjab province, *The Gulf Today* 29<sup>th</sup> March, 2016

## 1.1 Modern retail and Mall Culture – Changing face of retail in Pakistan

Modern retail<sup>9</sup> in Pakistan is burgeoning at the moment mainly spurred by changing consumer preferences. This transition in consumer preferences is caused by factors like extreme weather, convenience, quality, choice and rising disposable income. Ahmed Khan, head of leasing at the upcoming Emporium Mall, lends credence to this view stating that “new retail formats are replacing old trend of street shopping.”<sup>10</sup> Responding to such patterns, corporate investment in modern retail infrastructure is increasing in the country. Such investment also appears beneficial considering the under-developed state of the modern retail in Pakistan. As a result, there is an un-limited space for investment in organized retail with high returns. Business groups like Nishat, Arif Habib, Bismillah Group, Packages and Giga Group have invested in the modern retail infrastructure in different cities of Pakistan.

“  
*New retail formats are replacing old trend of street shopping.*”

*Ahmed Khan  
Head of Leasing, The Nishat Emporium Mall*

In case of shopping malls, which is part of the modern retail infrastructure, its distribution is

Projects for retail complexes are coming up in small cities of Pakistan as well.

mainly biased towards one province i.e. Punjab. Even within Punjab, Lahore attracts major investments in shopping malls. One reason for this is the relatively cheaper cost of inputs in the city compared to Karachi and Islamabad.

Such low cost is due to the proximity of locations from where materials used in construction of shopping malls are brought into the city. The same is not true for Karachi

since inputs are usually brought from Punjab which endears the cost. For Islamabad, construction is costly because of the requirement for high steel content in the building to hedge against earthquake shocks.

Another reason is the pattern of global brands to first establish themselves in Lahore and then move to other cities like Karachi and Islamabad. In Karachi, the construction of

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<sup>9</sup> Modern retail includes superstores, hyper-stores, and shopping malls.

<sup>10</sup> Retail business booms in Pakistan’s Punjab province, *The Gulf Today* 29<sup>th</sup> March, 2016

shopping malls has not seen any significant improvement mainly due to the uncertain situation of security in the city. Currently, there is no new project underway in Karachi especially after 2014. Only those projects that were underway pre-2014 are active like Lucky One Mall, Icon Tower Mall, and The Mall. While in Lahore, two new shopping malls, Nishat Emporium by Nishat Group and Packages Mall by Packages are due to open in this year. Similarly, in Islamabad, Mall of Islamabad is the major upcoming project. Some projects are also underway in other cities like Rawalpindi, Faisalabad, Multan, and Hyderabad.

Increasing investors' interest in retail complexes is also shaping consumer preference. Rukhsana Anjum, a senior instructor at Government College for Technology in Lahore, earning Rs. 100, 000 per month says that she has become brand conscious in last few years and prefers to purchase clothes and jewelry from shopping malls<sup>11</sup>. As retail sector in general remains bullish as argued above and factors congenial to development of mall culture stays in place, it will not be wrong to contend that mall culture may become a norm in Pakistan in the years ahead.

## 2. Shopping Malls – a Case for Retailers

This section presents an analysis of the views of the retailers who are currently in Centaurus and Safa Gold Mall in Islamabad. It attempts to answer why shopping malls can be profitable for retailers.

Presence in a shopping mall can be beneficial for retailers in four major ways, which are: marketing benefits, brand benefits, customer flow benefits, and location benefits.



<sup>11</sup> Pakistani women drive retail boom, *The Washington Post*, 1<sup>st</sup> October, 2012.



The developers of shopping malls have a practice to market their mall well before its completion. Such advertisements are also done after the mall is up and running. This allows the retailers who are in the mall to save on advertisement and marketing expenditure. For example, the Centaurus mall regularly issues a monthly newsletter which introduces new retailers that have entered the mall.

Retailers can also benefit from some of e-technology that malls introduce. Centaurus, for example, has introduced an app for advertising. Also in case of Centaurus in particular, its outlook itself has become a marketing act. Retailers in the mall have pointed out that customers are attracted by the building so they visit the mall from other parts of the country.

This maintains a high level of customer flow in malls. Retailers, in both Safa Gold Mall and the Centaurus Mall have pointed out this fact as one of the major reason for high sales in malls. Customers who come to a mall for a particular purchasing design have a decent chance to stop by other shops as well and make purchases. Retailers also claimed that they don't have to worry about customers in a shopping mall.

Another reason for this sustained customer flow is brand attraction. Presence of established brands in a mall also attracts customers which provide sales opportunities to allied retailers and even non-allied. For example, a local retailer of cameras may get to benefit from presence of global brands like Cannon in a mall.

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**CUSTOMER FLOW IS HIGH IN  
RETAIL COMPLEXES.**

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Retailers can also benefit from location of a mall. Location can determine the profitability of not only a retailer but also a mall. However, as much as the location may benefit, it could be harmful as well. For instance, Centaurus Mall is located on the Jinnah Avenue road of Islamabad right next to the Islamabad business hub Blue Area. This amplifies the marketing benefits and ensures a sustained customer flow in the mall. Safa Gold Mall is located deep within the city. As a result, one retailer who has an outfit in both Centaurus and Safa Gold Mall, claimed that profits are four times as much in former than latter. The presence of a retailer market right next to Safa Gold Mall has dented durability of its profits. This is not true for Centaurus Mall as no retail market to rival is located next to it.

Some of the other benefits include presence of variety of products and services for an average customer in a mall. This prompts customers to seek convenience of buying everything under one roof rather than shop around different shops in different localities. This way, customer also economizes on travelling costs. Common understanding for a shopping mall in Pakistan is that only people belonging to a particular class i.e. rich can afford a visit to such malls. This is not true. Shopping malls are visited by customers of

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**Box 2: Nishat Emporium Mall**

*Nishat emporium mall by Nishat Group is expected to open for the public in 2016.*

*Built on 2.7 million square feet and 11 stories tall, it will be the largest mall of Pakistan.*

*The impact of international brands on the profitability of Nishat Mall is visible.*

*Already brands like Sputnik, Scentsation, Unleash, China Town, Nike and Breakout are confirmed for the mall. This has prompted local brands like Ideas by Gul Ahmed, Aroshi, and Sana Safinaz to move in as well.*

*The variety that such brands bring ensures a high footcount. In case of Nishat Mall, a footcount of over 44,000 is expected daily. This further encourages more brands both local and international to move in. About more than 200 brands are confirmed for the mall.*

*This will increase the profit expectations of the mall. The impact of the mall on the local economy is also expected to be high. It is predicted that it shall provide employment opportunities to 10,000 people.*

different economic statuses. This is borne out by retailers in each mall as well. Having customers of different classes coming in also gives incentives to the retailers to offer variety of products and services. In this way, they can register profits.

In recent times, customers have preferred to shop in the secure and protected environment of a mall rather than in traditional retail markets owing to security risks in the city of Islamabad. Even if security position of the country improves, the newly entrenched mindset of mall loyalty can provide continuous opportunities to retailers.

Retailers in a mall are also protected from power outages which have already taken their toll on not only the retail sector in general but also other sectors of the Pakistani economy.

In order to increase foot-count in the mall, the mall administration ensures clean environment which attracts customers. While they may even charge for such expenditure from the retailers in rent, retailers still get to pay relatively less since such charges are averaged out across all retailers. If retailers had undertaken such an initiative to maintain a clean environment by themselves, they would have had to pay a higher amount.

Finally, retailers get a well maintained shopping unit when they enter into a mall.

According to a retailer, defects in the shopping unit are removed by the mall administration without charging anything. In case of non-shopping mall retailers, there would be significant investment to maintain the shop before starting business.

### 3. Retail Complexes – Prospects, Risks, Obstacles and Solutions

Despite new projects of shopping malls coming up in Pakistan, the presence of such shopping malls is still scant. As already stated, Mr. Yousuf Jamshed CEO LXY Global, contends that as of now, only two modern shopping malls are present in the country.

A certain Chinese province has about 139 shopping malls with a population size well below Pakistan's. Even with respect to India, British based retail expert Kim Culley states that mall-culture lags way behind in Pakistan to that in India.

The importance of retail complexes was recently highlighted in the Retail Leaders Conference organized by LXY Global which concluded that investment primarily in "retail complexes" will tap the true potential of retail sector and help create local brands as well as par, if not above, with global retailers.

This section studies the prospects for shopping malls, highlights risks, identifies the obstacles to mall culture and specifies solutions.

#### 3.1 Prospects

Investment in retail complexes is imperative to realize the true potential of retail sector. Potential for shopping malls is also in place in Pakistan. Due to the limited presence of malls in the country, investment in shopping malls has higher returns as well.

*There is potential for \$54 billion worth of investment in shopping malls which is equivalent to 23 percent of GDP.*

Karachi has a total shopping mall retail space of 5 million square feet. The report estimates<sup>12</sup> that Karachi has additional capacity for shopping mall retail space of 31 million square feet or 711 acres. This is equivalent to 12 Nishat Emporium Malls<sup>13</sup> or 78 Centaurus Malls<sup>14</sup>. Lahore has Pakistan's largest shopping mall retail space of 8 million square feet. Lahore has potential for 27 million square feet or 620 acres. This is equal to 10 Nishat Emporium Malls or 67 Centaurus Malls. Shopping Mall retail space in Islamabad is less than Karachi's and Lahore's with only 0.4 million square miles. The potential for new shopping malls for Islamabad is only 3 million square feet. By this estimate, Islamabad can accommodate 10 Centaurus Malls.

<sup>12</sup> The technique is laid down in Appendix

<sup>13</sup> Total size of Nishat Emporium Mall is 2.5 million square miles.

<sup>14</sup>Total size of Centaurus Mall is 0.32 million square miles.

## Modern Retailing: Prospects for Retail Complexes in Pakistan

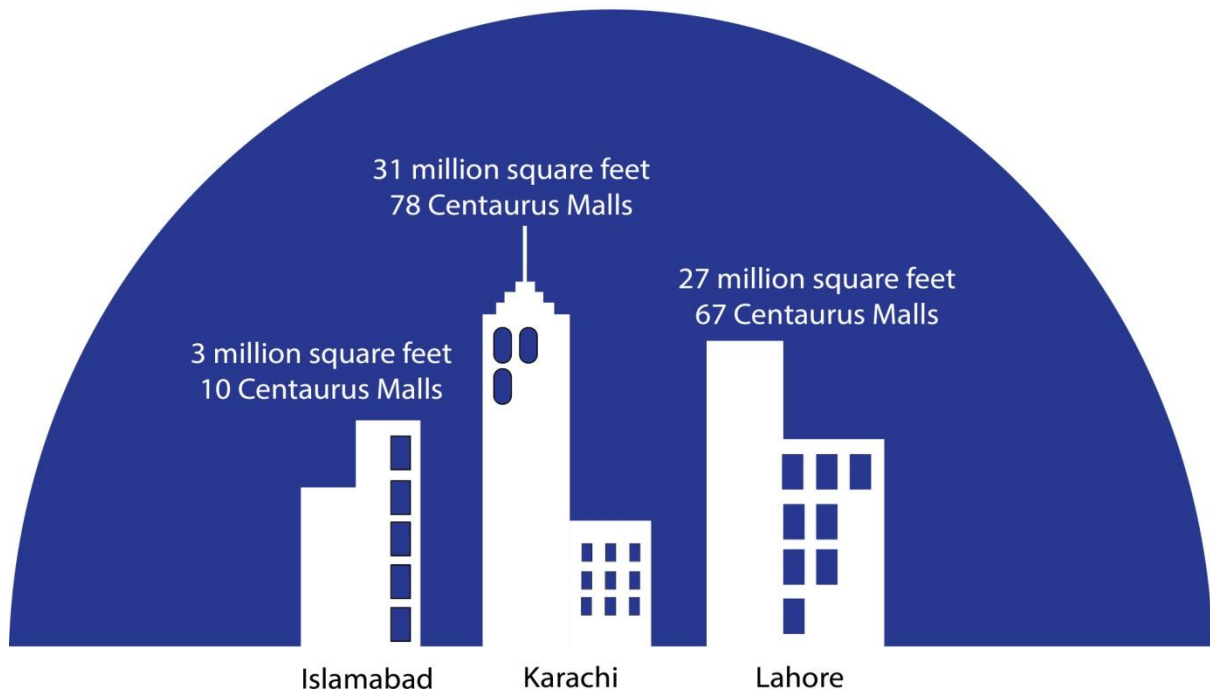
This implies that a total capacity of 61 million square feet or 22 Nishat Emporium Malls or 155 Centaurus Malls exist in only three cities of Pakistan. Notice that Centaurus was built at a cost of \$350 million. This translates into \$54 billion worth of investment or 23 percent of GDP<sup>15</sup> and approximately 0.3 million new jobs can be created<sup>16</sup>. As of now, India already has 570 operating shopping malls with 180 million square feet<sup>17</sup>.

*It takes 5 years to recover costs of retail complexes.*

From the investor-side, there are good prospective for investing in shopping malls. By one estimate, costs are recovered in just about five years on average. Incorporating this fact and

studying the payment pattern of few upcoming malls shows that returns on real estate investment for shopping malls are quite high. Built on 0.14 million square feet with land cost of Rs. 1 billion approximately<sup>18</sup>, the rate of return for Atlantis Mall of Islamabad will be 230 percent. Mega Mall Rawalpindi to be built on 0.12 million square feet with land cost of Rs. 840 million has expected rate of return of 163 percent.

### POTENTIAL FOR RETAIL COMPLEXES



<sup>15</sup> Pakistan's GDP is \$233 billion.

<sup>16</sup> Nishat Emporium Mall is expected to create 10000 new jobs. By one estimate, 6000 jobs are created by construction of a mall.

<sup>17</sup> <http://timesofindia.indiatimes.com/business/india-business/Malls-more-than-double-in-five-years/articleshow/21696915.cms>

<sup>18</sup> Rate per square feet is approximately Rs.7000 Islamabad

Mr. Kashif Gulzar, Marketing Manager of DHA-based real estate company Investment Point, claims that an investment on a 20 kanal shopping mall has a return of around 133 percent. Similarly, CEO of Investment Point Brigadier (retd.) Waqar stated that rate of return on real estate only for Prism Arcade in DHA is as high as 300 percent.



**“Investment on a 20 kanal shopping mall has a return of 133 percent”.**

Kashif Gulzar  
Marketing Manager, Investment Point



### 3.2 Risks

The high returns on real estate investment are based on the performance of the retail sector. As shown in Figure 2, the performance of the retail sector despite an upward trend seems off its track at times. If downward trend emerges in the future, shopping malls may become unprofitable. The penetration of shopping malls as the new face of modern retail in Pakistan may hold up as a result. This can further discourage international brands to enter into Pakistani retail market.

### 3.3 Obstacles

The obstacles to investment in retail complexes in Pakistan are consumer-centric and investor/developer-centric. Some obstacles are also external in nature. Explaining some of these external obstacles, Mr. Yousuf Jamshad believes that retail complexes as a trend will take time to entrench in the Pakistani society. On the consumers' side, awareness of shopping in malls is still not that developed in the country. In some time, social resistance to shopping malls may also appear.

Mr. Jamshad holds that sluggish penetration of international brands in the Pakistani retail market as the major reason behind slow uptake in retail complexes. While in recent past, international brands have come in Pakistan; their number is still at sub-optimal level for retail complexes to be established. Mr. Jamshad, further explained that international brands have a tendency to prefer shopping malls as their location.

Some practices of the malls are also counter-productive to the establishment of retail complexes. For instance, high discriminatory rent is charged from local retailers intending to move into malls. Even tenet-mix is more supportive for global brands in few cases. This practice has discouraged local retailers to move into malls which dents profit margins of malls at large.

Better profit prospects for developers of shopping malls are necessary if retail complexes are to establish in the country.

### 3.4 Solutions

Malls can be made attractive to investors by reducing the number of years it takes to recover costs incurred in developing and constructing shopping malls. The preceding sub-section 3.3 has identified three major obstacles that can potentially increase the waiting time for profits. This halts the progress in retail complexes of Pakistan. The obstacles are: Sub-optimal presence of international brands, skewed pricing policies of malls, and finally tenet-mix. This sub-section suggests solutions to each of these obstacles. These solutions to each of the three obstacles are as follows:

1. Presence of international brands can be encouraged by reducing the overall cost of doing business in Pakistan. Pakistan already ranks at 138 out of 189 countries in the index of doing business<sup>19</sup>. Improvement can be achieved by reducing the number of days for obtaining construction permits which is currently at 251 days. Similarly, reducing such delays in property registration (50 days currently), paying taxes (594 hours per year currently), and enforcing contracts (993 days currently) can help in this regard.
2. Malls charge a lower rent to international brands and higher rents to local brands. The reason for charging lower rents from international brands is to encourage them.. It is suggested that rent charged of the local brands should be in line with those charged of international brands. In this way, local brands can be in a better possible to compete with international brands.
3. To promote retail complexes in Pakistan, mall developers should become stake holders with retailers who are located in a mall. Mr. Jamshad proposes that rent charged to the local retailer should be low. In order to make up for loss in rent payment, mall developers should charge a certain fixed proportion from the sales volume of retailers. In this way, retailers and developers can become partners.

*Delay*  
Enforcing contracts requires  
**993** days in Pakistan.

### 4. Real estate – Real issues<sup>20</sup>

Decision to build a shopping mall is linked with real estate price. The issues in the real estate market are also faced by developers of shopping malls. This section highlights a few of these issues.

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<sup>19</sup> Pakistan ranks 138 out of 189 on ease of doing business, *Dawn* 29<sup>th</sup> March, 2015.

<sup>20</sup> This section draws heavily from “Real estate market in Pakistan: Growing beyond regulations” PRIME Institute.

Land acquisition: The enormity of this problem can be appreciated by the scale of land on which malls are built. Getting permits and approval for map/architecture takes a long time – one year or more. Such problems are worsened by issues related to clearance of property title. The standard procedure is to advertise the title of the property in the newspaper. Once the property is cleared, the property is transferred. The procedure may appear simple but it is far from it. In some instances, land is already sold to more than one buyer which creates conflict. Property, in some cases, exists only on paper. These problems complicate the clearance of title.

*“Generous zoning can increase investment in shopping malls”*

**Dr. Nadeem-ul-Haque**

Taxes: Buyers of land have to pay number of taxes on purchase of land. The buyer has to pay 1 percent registration fee and 1 percent town tax. The capital value tax of 4 percent is also paid for all commercial areas. In each province, stamp duty is paid as well which varies in each

province of the country. In Punjab, developers have to pay 6.5 percent stamp duty. On top of that, numerous and high taxes are compounded by procedural delays and corruption in the tax structure in the country.

Financing: Even if all the procedures for land acquisitions are carried out by the developers and the property is cleared and the taxes required are paid, issues related to financing arises. The need for financing for a mall is dependent on the scale of the project. In Pakistan, financing for real estate endeavors is not that extended. The extent of mortgage financing is also very limited. By one estimate, mortgage finance constitutes for only 0.5 percent of GDP. In other countries like India, the extent of mortgage financing is as high as 10 percent. This explains why few investors venture their capital in shopping malls.

**Real estate cost of Pakistan’s largest shopping mall *The Nishat Emporium* is Rs. 12.5 billion.**

Zoning laws: These deter developers from investing in real estate. Developers need to conform to the master plan of the city. These master plans provide opportunities to the real estate agents to raise the price exponentially of the land included in the center of the city. There is another way through which zoning can increase the price of a plot. For example, zoning limits the land available for commercial development. This reduction in supply can’t make up for the ever-increasing demand for real estate, thus pushing up prices. High prices

make already costly business of developing shopping malls even more costly. For example, cost of land acquisition for Centaurus Mall was 60 percent of the total final cost of the mall which included the cost of construction<sup>21</sup>. The cost of land for Pakistan's largest mall The Nishat Emporium Mall is Rs. 12.5 billion<sup>22</sup>. Generous zoning can encourage more investment in shopping malls by reducing the cost of land. Renowned economist Dr. Nadeem-ul-Haque estimates that such generous zoning in Islamabad only can increase investment in shopping malls by \$60 to \$100 billion, equivalent to 30 to 50 percent of GDP<sup>23</sup>.

## **Conclusion**

The retail sector of Pakistan is growing at a robust rate. The reason for this strong performance has been increasing urbanization, a young population, and increasing urban per capita income. The strong growth performance of the sector coupled with changing consumer preferences like emphasis on quality and convenience has led to the emergence of a modern outlook of retail sector in the country. This new face of retail in the country is headlined by sprawling shopping malls in Pakistan. Despite the increasing number of shopping mall projects in Pakistan, the market is still pre-mature for retail complexes to be fully established. Comparison to other countries also reveals that despite smaller population than Pakistan's, the number of malls is higher relative to that in Pakistan.

Despite such trends, the report has estimated that there is potential for 61 million square feet of new shopping malls or 155 Centaurus like modern retail complexes. The eventual economic impact of such new shopping malls will increase investment by 23 percent of GDP and 0.4 million new jobs. Investor returns on real estate for shopping malls is as high as 300 percent in one case. To tap into this hidden potential, better city planning through generous zoning is of crucial importance.

Finally, the report has highlighted factors both consumer and investor/developer centric that are obstructing retail complexes in Pakistan. Major factors include sub-optimal presence of international brands and lack of consumer awareness. Some practices of shopping malls are also counter-productive for retail complexes to take hold. For example, shopping malls charge higher rents from local retailers. This discourages retailers to move into shopping malls. These factors make shopping malls rather un-profitable. Subsequently, it takes five years on average for a shopping mall to recover its costs. The report contends that in order to tap the true potential Pakistan's retail sector, retail complexes should be established.

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<sup>21</sup> Commercial rate of land per square feet is Rs. 7000 in Islamabad.

<sup>22</sup> Commercial price of land per square feet is Rs. 5000.

<sup>23</sup> <https://medium.com/@nadeemhaque/how-valuable-is-your-bureaucracy-f14813dd90a8#tmw11kyxl>



## Appendix

Real estate demand for shopping malls is a derived demand dependent on performance of the retail sector. To estimate the potential demand of real estate for shopping malls this fact is utilized. Hedonic function is estimated to calculate the modern retail sales potential in Karachi, Lahore, and Islamabad/Rawalpindi. The specification of the function is as follows:

$$MRS = \alpha + \beta(POP) + \gamma(Urb) + \delta(Cons) + \varepsilon$$

Where

MRS = Modern retail sales<sup>24</sup>

POP = Total population

Urb = Urban population as percent of total population

Cons = Per capita consumption expenditure

Modern retail sales are calculated as 8 percent of total retail sales. The reason for this is that, by one estimate, total modern retail grocery sales constitutes about 8 percent of total retail sales in Pakistan<sup>25</sup>. The function is estimated for the last 15 years in Pakistan. Urban population, total population and per capita consumption<sup>26</sup> are plugged in the equation to calculate potential modern retail sales in Karachi, Lahore, Islamabad/Rawalpindi.

Modern retail sales for 2014<sup>27</sup> is then weighted by the population of each of the three cities to give an approximate number of modern retail sales in Karachi, Lahore, and Islamabad/Rawalpindi. The ratio of modern retail sales per million square feet of shopping is calculated. This ratio is then used to calculate demand of real estate for shopping malls.

### Example

Predicted modern retail sales is Rs. 27,507 for a city in which already Rs. 9,406 of modern retail sales is handled by one million square feet of shopping mall space. By this ratio, it will take 2.92 million square feet of additional shopping mall space to handle the forecasted modern retail sales of Rs. 27,507.

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<sup>24</sup> Figures produced by Pakistan Economic Survey are taken as proxy of retail sales. The reason is underlying methodology used by Pakistan Bureau of Statistics where quantity of retail products is multiplied by its respective retail price. This effectively makes it retail sales.

<sup>25</sup> The path to 2020: Taking the long view of retail market entry, Planet Retail

<sup>26</sup> Per capita consumption is taken from latest Household Integrated Economic Survey.

<sup>27</sup> The reason for this year is that information on total million square feet of shopping malls in Karachi, Lahore Islamabad/Rawalpindi is available.

## Introduction

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