

EXECUTIVE OVERVIEW- **PAKISTAN HOUSING &** **CONSTRUCTION SECTOR**



ECONOMIC POLICY
& BUSINESS
DEVELOPMENT

Critical State of Housing & Construction Sector

KEY METRICS

- **Housing Deficit:** 10 million units
- **Real Growth (FY24):** -1.5% (vs nominal 14.5%) *(table 1)*
- **Mortgage to GDP:** 0.3% (lowest globally)
- **Sector Contribution:** 2.37% of GDP, 13% of industrial output *(Economic Survey of Pakistan 2023-24)*

Table 1 Comparison of nominal and real performance

Year	Current Basic Prices 2015-16 (PKR Trillion)	Growth (%)	Constant Basic Prices of 2015-16 (PKR Trillion)	Growth (%)
FY22	1.85	33.8	0.98	1.8
FY23	2.18	18.1	0.89	-9.2
FY24	2.50	14.5	0.88	-1.5

Source: The State of Pakistan’s Economy, Annual Report 2023-24

DEMAND SUPPLY GAP:

- **Annual Demand:** 500,000- 700,000 units
- **Annual Supply:** 250,000- 350,000 units
- **Gap:** 250,000- 450,000 units annually

MARKET OPPORTUNITY:

Opportunity: \$200+ Billion

- 72 allied industries operating at only 30-40% capacity
- **Employment:** 7.61% of labor force

STRATEGIC IMPLEMENTATION STATUS

Government initiative status assessment:

- Taxation reforms on track for Q2 2025
- RERA establishment facing delays
- Mortgage innovations and vertical development progressing with minor delays
- Revival of Mera Pakistan Mera Ghar scheme requires urgent attention.

Four Critical Challenge Areas

1. POLICY & REGULATORY ISSUES

- **Transaction taxes:** 8-11% (target: 2-2.5%)
- Complex approval processes
- Cement prices surged 86.96% since FY22
- Oligopolistic market structure
- Absence of town planning and systematic availability of land for development
- Lengthy dispute resolution processes
- Undue burden of wealth reconciliation on buyers of real estate

High construction input prices across materials drive up project costs, reduce housing affordability, and contribute to negative real sector growth of 1.5% while deterring investment. A holistic approach to reducing material costs is essential for sector recovery.

3. HUMAN RESOURCES

- Critical skill gaps in modern techniques
- No certification programs
- Brain drain to Gulf countries
- Safety concerns and training deficits

Skill deficits and workforce exodus prevent adoption of modern construction methods, reducing quality and productivity while increasing project costs and safety risks.

2. ACCESS TO FINANCE

- 0.3% mortgage to GDP (vs India 11%, Bangladesh 3%)
- Only 1.6% of bank advances to construction
- Limited long term financing
- \$10-12B capital outflow to Middle East
- Transaction costs in Pakistan (11-15%) significantly higher than regional competitors: India (5-7%), Bangladesh (6-7%)

Inadequate financing constrains market activity, with construction sector operating at 30-40% capacity. Key issues include poorly structured construction loans, lack of IDC provisions, limited refinancing options for unsold inventory, and high transaction costs deterring investment.

4. TECHNOLOGY

- No online property registration
- Minimal digital infrastructure
- Limited modern construction methods
- Absence of Prop-Tech ecosystem

Lack of digital infrastructure and modern methods increases transaction complexity, extends project timelines, and raises construction costs by 20-30% compared to regional competitors.

Economic Impact of Reforms- Every 100,000 additional units could

- Increase GDP by 0.5%
- Generate \$1.7 billion investment
- Benefit 72+ industries

Recommendations & Way Forward

Tax Rationalization

- Reduce total transaction tax from **8-11% to 2-2.5%**
- Section 236C (Seller): **1.5-2% (from 3-4%)**
- Section 236K (Buyer): **0% (from 3-4%)**
- Provincial stamp duty: **0.5% (from 4%)** with calculation based on floating rate
- Exempt construction sector from advance taxes given limited access to finance
- Exempt sector from sales tax on goods and services
- Revive **Clause 99-A** of 2nd Schedule
- Ease Section 7E tax measures on real estate

Human Resource Development

- Create vocational training institutes for modern techniques in collaboration with NAVTTC and TEVTA
- Implement standardized wage structures
- Develop safety training protocols
- Launch programs to retain skilled professionals
- Promote gender inclusive workforce initiatives

Strategic Market Interventions

- Focus on reducing import costs for all construction materials
- Consider cement imports for price stability
- Promote modular/prefab construction
- Develop green building standards
- Support PPP models for affordable housing

Financing Reforms

- Mandate minimum **5% bank credit** allocation for housing
- Reduce policy rate to single digits
- Resume Mera Pakistan Mera Ghar (MPMG) Scheme
- Introduce first time buyer incentives
- Waive stamp duties for affordable housing
- Develop fixed rate mortgage products
- *Structure financing appropriately for construction business cycle:*
 - Include Interest During Construction (IDC) explicitly as part of the facility
 - Provide refinancing at lower rates with extended repayment plans for completed but unsold inventory
- Promote REITs to facilitate participation by capital markets
- Introduce Islamic/Shariah-compliant financing options:
 - Diminishing Musharakah (co-ownership gradually bought by buyer)
 - Ijara (rental for home use, transitioning to ownership)
 - Wakala (funds managed on behalf of investor pool)

Regulatory & Technology Initiatives

- Establish operational RERA
- Implement online building approvals
- Create digital mortgage platforms
- Develop centralized property database
- Enable zone compliance system
- Develop comprehensive town planning framework
- Implement expedited dispute resolution mechanisms for real estate

Recommendations & Way Forward

Housing Finance Program

Interest-Free Housing Finance

- Program target: 100,000 housing units for middle and low-income groups
- Financing details: PKR 10M per unit, 10-year tenure, zero markup
- Monthly payment: PKR 96,053 with 1% annual service fee
- Eligibility: First-time buyers with income PKR 50K-300K monthly
- Islamic models: Diminishing Musharakah, Ijara, and Wakala structures

Payment Plan Structure (Individual Customers)

Year	Monthly Payment	Principal/Year	Service Fee/Year	Total Annual
FY01	96,053	526,316	100,000	626,316
FY02-10	96,053	1,052,632	100,000	1,152,632
Total	-	10,000,000	1,000,000	11,000,000

Note: All figures are in PKR

Economic Sustainability

- Program becomes self-sustaining within 10 years through service charges
- With 15% tax collection rate, positive government cash flow after year 8
- By FY09: Net positive cash flow of PKR 44,737 million
- By FY10: Net positive cash flow of PKR 150,000 million

This program would increase housing demand, expand middle-class homeownership, and formalize market participation while supporting 60+ allied industries.

First-Time Homebuyer Programs

Interest-Free Housing Finance

- Up to PKR 10M, 10-year tenure, zero markup, 1-2% service fee
- For first-time buyers (income PKR 50K-300K monthly)
- Funded through Waqf-like endowment structure

First-Time Homebuyer Incentives

- Down payment assistance for qualified first-time buyers
- Tax benefits: mortgage interest deductions, property tax relief, tax-free savings
- Support services: education courses, streamlined approvals, specialized financing

Global Examples

- USA: FHA loans with 3.5% down payment; tax credits up to \$15,000
- Canada: Tax-free First Home Savings Account; \$40,000 tax-free RRSP withdrawals
- France: PTZ (zero-interest loans) up to €80,000 with no repayment for first 5-15 years

These international best practices adapted for Pakistan would accelerate housing market participation, reduce barriers to entry for first-time buyers, and help bridge Pakistan's housing deficit.

Note: Implementation of these recommendations will create approximately 4 million jobs across the construction sector and its 72 allied industries over a five-year period, representing a significant contribution to Pakistan's employment landscape and economic growth.

Sr.#	Issue	Policy Recommendation	Impact	Action By	Act/Law/Policy
1	Transaction taxes reduced to 8-11% after FED abolition; still high vs optimal 4-4.5%	<ul style="list-style-type: none">- Reduce Section 236C to 1.5-2%- Reduce Section 236K to 0%- Reduce stamp duty to 0.5% with floating rate calculation- Ease Section 7E measures- Exempt sector from advance taxes and sales tax	<ul style="list-style-type: none">- Reduce total tax burden to- Increase 2-2.5% property transactions- Address capital outflow of \$10-12B to Middle East	FBR, Provincial Governments	Income Tax Ordinance 2001 (Sections 236C, 236K, 7E)
2	Mortgage-to-GDP ratio at 0.3% vs regional peers (India 11%, Bangladesh 3%)	<ul style="list-style-type: none">- Mandate minimum 5% bank credit for housing- Reduce policy rate to single digits- Resume MPMG Scheme- Introduce fixed-rate mortgage products- Establish Islamic financing options (Diminishing Musharakah, Ijara)	<ul style="list-style-type: none">- Expand mortgage market- Enable homeownership- Increase bank advances from current 1.6%	SBP, Ministry of Finance	–
3	High construction input prices driving project costs	<ul style="list-style-type: none">- Allow material imports to stabilize prices- Break oligopolistic market structures- Address price differentials with regional competitors- Holistic approach to reducing all input costs	<ul style="list-style-type: none">- Reduce overall construction costs- Lower project expenses- Increase demand- Reverse negative growth trend	Competition Commission, Ministry of Commerce	Enforce Competition Act 2010 (Sections 3, 4, and 31)
4	Complex approval processes causing delays	<ul style="list-style-type: none">- Ensure all building approvals are online and time-bound- Implement zone compliance system- Develop comprehensive town planning framework- Implement expedited dispute resolution	<ul style="list-style-type: none">- Reduce approval time- Increase housing starts- Improve ease of doing business	CDA, Provincial Development Authorities	Land Revenue Act 1967, Registration Act 1908, Transfer of Property Act 1882
5	Housing deficit of 10-12 million units	<ul style="list-style-type: none">- Develop National Housing Policy- Support PPP models for affordable housing- Promote vertical development- Allow mixed-use development	<ul style="list-style-type: none">- Reduce deficit- Address annual demand-supply gap of 250-450K units- Create employment opportunities	Ministry of Housing & Works	–
6	First-Time Homebuyer Programs needed	<ul style="list-style-type: none">- Establish interest-free housing finance up to PKR 10M- Create down payment assistance program- Implement tax incentives for homebuyers- Establish First Home Savings Scheme	<ul style="list-style-type: none">- Increase housing affordability- Expand middle-class homeownership- Formalize market participation	Ministry of Finance, SBP, FBR	–

Sr.#	Issue	Policy Recommendation	Impact	Action By	Act/Law/Policy
7	Construction sector employs 7.61% but lacks skilled workforce	<ul style="list-style-type: none">- Establish certification programs for HVAC, carpentry, glaziers/aluminum workers- Implement safety training protocols- Develop standardized wage structures	<ul style="list-style-type: none">- Improve productivity- Enable industries to exceed 30-40% capacity- Support modern construction methods	NAVTTTC, Provincial TEVTAs	–
8	Minimal digital infrastructure for property transactions	<ul style="list-style-type: none">- Create online property registration- Create Arazi Record Centers nationwide (Section 17)- Implement blockchain solutions	<ul style="list-style-type: none">- Increase transparency- Reduce transaction time- Enable PropTech ecosystem	IT Ministry, Provincial Revenue Departments	Punjab Land Records Authority Act (Sections 5, 15 16, 17) – to be replicated nationwide
9	FDI declined from \$36.5M (FY22) to \$15.2M (FY24)	<ul style="list-style-type: none">- Streamline regulatory framework- Create investment incentives- Improve ease of doing business- Strengthen RERA framework	<ul style="list-style-type: none">- Restore investor confidence- Attract international developers- Increase FDI in construction	BOI, Ministry of Housing	Pakistan Investment Policy 2023 (Sections 10.2, 13, 14)