Working Paper 01

Optimising the Naya Pakistan Housing Policy Opportunity

Ibrahim Khalil

Umar Nadeem

March 2019

TABADLAB

Bismillah irr Rahman irr Rahim

Optimising the Naya Pakistan Housing Policy Opportunity
Ibrahim Khalil
Umar Nadeem
Tabadlab Occasional Working Paper 1
ISBN 978-969-7911-00-4

Available from:
Tabadlab
Mezzanine Floor, Beverly Centre, Blue Area, Islamabad, Pakistan, 44000.

Tabadlab Private Limited is a for-profit think tank based out of Pakistan.
Tel: +92 51 2726668
info@tabadlab.com

The authors did not receive any financial support from any firm or person for this article or from any firm or person with a financial or political interest in this article. They are currently not an officer, director, or board member of any organization with an interest in this article.

Optimising the Naya Pakistan Housing Policy Opportunity

Ibrahim Khalil, Umar Nadeem

Abstract

This working paper aims to analyze the policy direction for one of the foremost priority areas of the government - housing. The flagship Naya Pakistan Housing Programme has been conceived to make available five million housing units primarily for low-income groups over the next five years. Policy and institutional design to deliver on this rather aggressive and ambitious agenda will require a middle-out approach. Local past failures and international success stories have much to offer to inform robust policy and administration in this vertical. This paper presents an analysis of the housing market at present. It then highlights two major pitfalls that must be avoided: low-rise urban expansion and fizzling out of the envisaged housing finance uptake. Finally, calibrations to the policy focus that can prove critical in achieving intended outcomes are discussed - these are urban planning reforms for high-rise housing, affordable housing obligations and a tailored financing framework for middle-income groups.

Ibrahim Khalil is responsible for project financing of residential real estate construction for one of the premier real estate companies in Canada and has an experience of investing in and managing residential real estate in US, UK and France.

Umar Nadeem is a policy and governance advisor, and has worked in Asia, Europe and Africa on public sector development. His areas of expertise are governance, service delivery, and digital government. He is a graduate of the Lahore University of Management Sciences, and holds a Master of Public Policy from the University of Oxford.

Table of Contents

Abbreviations and acronyms

AHO	Affordable Housing Obligations
GDP	Gross Domestic Product
HDB	Housing and Development Board
LTV	Loan to Value
NPHA	Naya Pakistan Housing Authority
NPHP	Naya Pakistan Housing Programme
PKR	Pakistan Rupee
SDG	Sustainable Development Goals
SBP	State Bank of Pakistan

1 The housing crisis

Pakistan's grossly inadequate housing supply is evident from the national housing deficit estimated at 10 million units[1]. It is projected that this gap increases by 350,000 units every year[2] with the incremental deficit expected to rise to 400,000 units per annum in the near future[3].

There are three drivers of the housing crisis in the country. The first is demographic and social. Pakistan has a growing population that is urbanizing rapidly[4]. The production of new stocks of housing is unable to keep pace with this rising population, and its rapid urbanization. Emerging household formation trends also exacerbate the problem, especially the nuclearization of the urban Pakistani family. The second is the rising cost of land and construction. As land is the principal store of value, the cost of land increases at a faster rate than incomes. Similarly, construction costs have been escalating in recent years. The third is a weak and incoherent banking and finance sector, especially for housing. Both for buyers or for developers, the absence of robust housing finance contributes further to the unaffordability and inaccessibility of home ownership across the country.

1.1 Population, urbanization and the new Pakistani family

Pakistan is the world's sixth most populous country with an estimated population of over 207 million and a population growth rate of 2.4% per annum. It is estimated that annual demand for housing is 700,000 units, of which, only half is being met by production of new housing units[5]. This shortage is acutely felt in urban areas because:

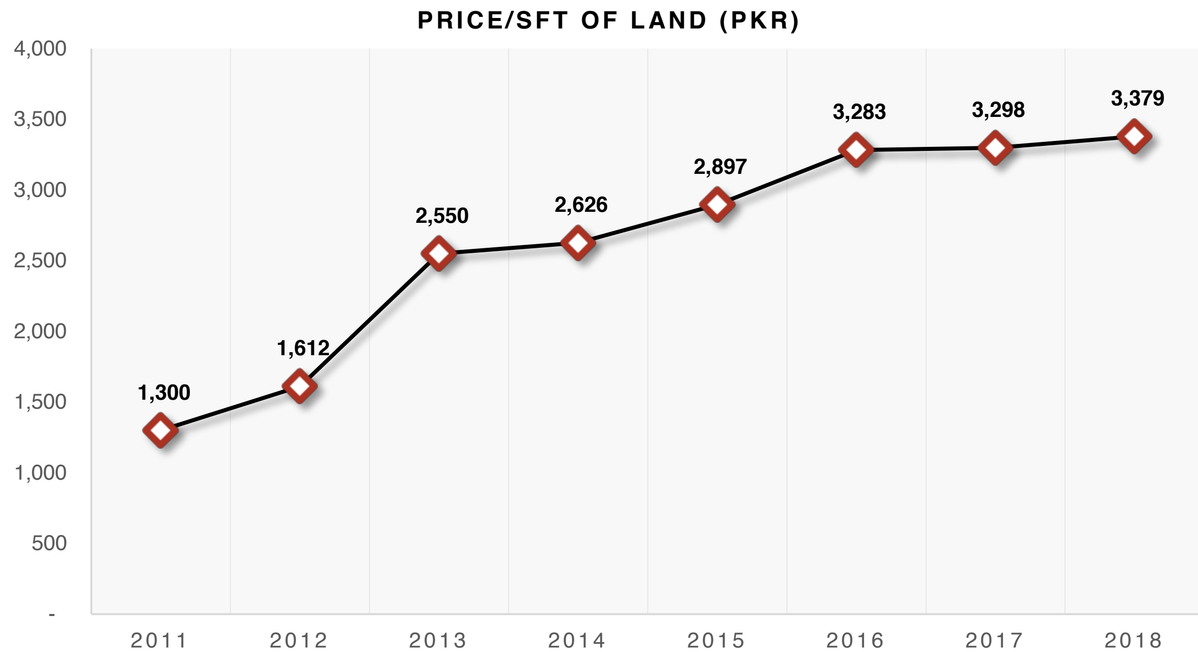
- the urban population is growing at a rate faster than that of the total population: 2.7% as compared to 2.4% per year; and
- the decrease in average urban household size from 7.0 in 1998 to 6.2 in 2017[6].

This results in overcrowding in existing housing stock and consequently deterioration of living space and standards. The World Bank estimates that around 47% of urban households live in informal settlements (*katchi abadis*) with limited access to civic infrastructure and sanitary services[7].

Within Pakistan's cities, there is anecdotal evidence of a growing population of individuals choosing to live on their own, as well as young families choosing to branch out beyond traditional joint family household setups. Increased female mobility and greater economic autonomy exercised by both young people and by women all point toward the likelihood that the new Pakistani family will push demand for housing units, especially in cities, higher and higher in the years to come.

1.2 The rising cost of land (and construction)

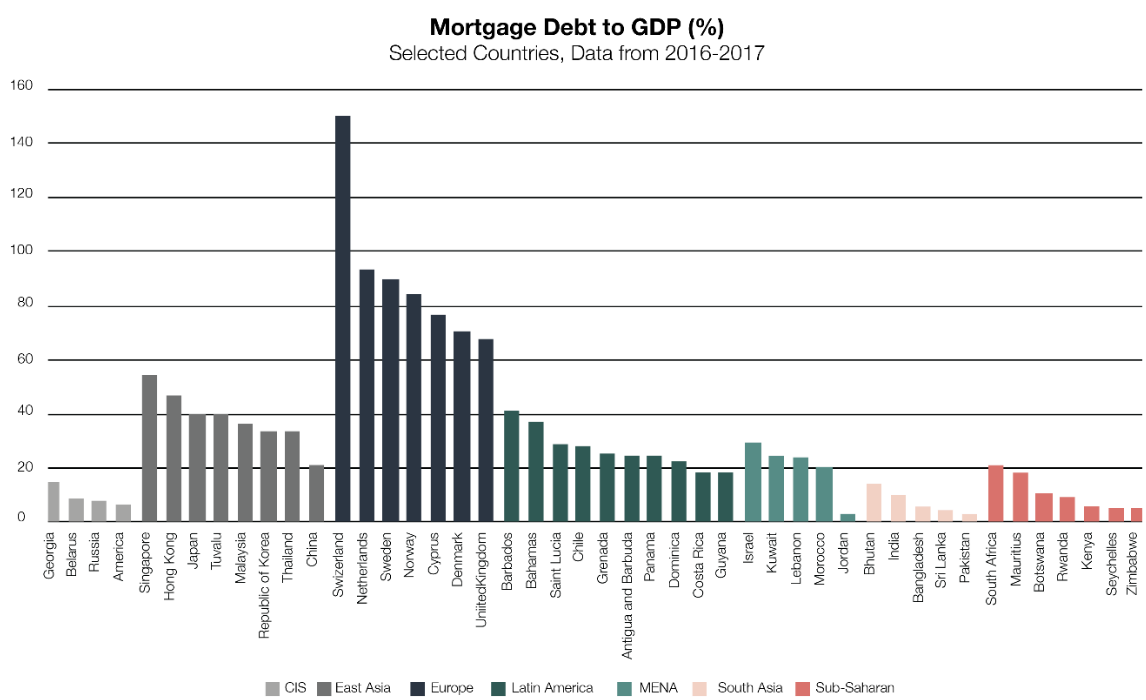
Land and construction costs have increased considerably over the last few years. At prevailing prices PKR 3,379/SFT for land[8] and PKR 1,250/SFT for grey construction[9], the cost of an 80 square yard unfinished single-story house comes to around PKR 3.3 million (not including financing cost and developer's profit). Outright purchase at this price is beyond the reach of majority of the population.



Source: www.zameen.com

1.3 The non-existent housing finance sector

There are two components of housing finance: mortgage finance and construction finance. Mortgage finance is provided to buyers and helps to increase the affordability of housing units.



Source: Housing Finance Information Network

Mortgage finance in Pakistan is still in its infancy: Pakistan's mortgage finance-to-GDP ratio (referred to as mortgage depth), is at 0.23%, the lowest in South Asia (3% in Bangladesh and 7% in India)[10]. As of 2018, around 68,000 housing loans are outstanding with an outstanding loan balance of PKR 83 billion and tenor of thirteen years. Just 1,500 new mortgage loans are extended every year with the average loan size in 2016 being PKR 6.1 million and an average loan-to-value (LTV) ratio of 48%[11] forcing the borrowers to arrange the remaining 52% purchase price from their own savings. Not only is the current mortgage finance market small, it mainly caters to the high-income group[12].

Mortgage finance availability also has a snowball effect on construction financing[13]. In countries, where mortgage financing is a well-developed market, builders can access construction financing from commercial banks enabling them to timely complete the construction. In absence of construction financing, the builder finances construction using own money (equity), informal loans/equity from investors/speculators and deposits/instalments from buyer[14]. At each stage, the builder is awaiting next instalment from the buyer before the construction can continue. This delays construction completion and, in an inflationary environment such as ours, compels the builder to keep a buffer in the price of housing unit to mitigate against increase in prices of construction material and labour. Thus, in an inflationary environment, non-availability of mortgage finance counterintuitively has the unintended consequence of high house prices.

However, if the end unit buyer has mortgage approval, the builder can take it to construction lenders. A mortgage approval signifies two things to construction lender:

1. that the project is sellable/sold-out; and
2. that the construction loan will be repaid at construction completion from the buyer's mortgage finance.

Consequently, housing projects that have mortgage approvals in place are completed on timely basis as they have ready access to construction financing. Hence the availability of mortgage finance not only increases affordability, it also results in the availability of construction financing that leads to an increase in the supply of housing stock.

2 The public policy response

The housing crisis has long been acknowledged as a serious public policy challenge. Pakistan has experimented with various programs from huge public housing program (Korangi) in the 1960s to the resettlement of *katchi abadi* residents (Hawke Bay) in the 2000s. In 2010, the Government of Punjab launched the Ashiana Housing Scheme targeted at low and middle-income buyers but delays in construction and balloting led to accusations of irregularity and eventually arrests of those involved in the project[15].

Over the years, Pakistan has had National Human Settlement Policy (1984), National Conservation Strategy (1988), National Housing Policy (1986), and National Housing Policy (2001). In sum, the federal and provincial governments have been cognizant of the housing challenges facing the population and have prepared various responses, yet the programs have failed to address the issue.

An effective policy, and its implementation will be key to addressing the housing challenges faced by Pakistan. The housing sector can certainly have a multiplier effect on associated and ancillary industries and sectors and also stimulate growth. Focusing on this issue is also linked to Sustainable Development Goal 11 – Sustainable Cities and Communities. Urban expansion without adequate infrastructure and facilities will further aggravate the intra-urban divide and compromise the strategic objectives to develop and foster inclusive and safe communities.

In recent months, two fresh policy measures have been introduced to tackle the crisis. They are described below.

2.1 State Bank of Pakistan Policy

On July 18, 2018 the State Bank of Pakistan (SBP) published the "Policy for Promotion of Low-Cost Housing Finance"[16] (hereinafter referred to as "SBP Policy"). SBP Policy tackles both aspects of housing finance i.e. mortgage and construction finance. It introduces a subsidized mortgage financing policy to make housing affordable to low-income groups and also provides a subsidized construction financing policy to incentivize builders/developers to increase the supply of low-income housing units.

For Borrower	
Participant	All Banks/DFIs
Loan Amount	Up to PKR 2 Million
Extent of Refinance	- Up to 50% by SBP - Remaining 50% by Banks/DFIs from its own funds
Eligibility of Borrowers	- First time home owner - Monthly income up to PKR 60,000 - For construction of new houses/flats and renovation of existing housing units/flats - Maximum value of up to PKR 2.5 Million
Loan Tenor	Up to 12 ½ years
Borrower rate for SBP Refinance	5% (including bank's spread of up to 4%)
Options for Borrower on 50% by Banks/DFIs	- Up to a maximum of 12% fixed rate for entire duration of the loan, or - 1 year KIBOR plus risk premium up to 4%

For Builder/Developer	
Participant	All Banks/DFIs
Loan Amount	Up to the extent of low-cost housing units
Extent of Refinance	- Up to 50% by SBP - Remaining 50% by Banks/DFIs from its own funds
Eligibility of Projects	Low-cost housing unit selling price, under the project, up to PKR 2.5 Million
Loan Tenor	Up to 5 years
Borrower rate for SBP Refinance	5% (including bank's spread of up to 4%)
Options for Borrower on 50% by Banks/DFIs	Bank and borrower may mutually agree on fixed or floating rate

SBP projects that the aforementioned policy will help in increasing the number of mortgage borrowers from 68,000 presently to 200,000 by June 2021 with total mortgage finance balance increasing from current PKR 83 billion to PKR 250 billion by the end of the same period.

2.2 Naya Pakistan Housing Programme

In October 2018, PM Imran Khan announced Naya Pakistan Housing Program (NPHP) to increase availability of affordable housing in the country that builds on the SBP Policy. A detailed policy document has not been published but key features of the project as announced are:

1. Naya Pakistan Housing Authority (NPHA) will be established and will acquire the land.
2. NPHA will ensure that necessary infrastructure is in place on land before a housing scheme/unit on it is launched.
3. Builders/Developers will bid to construct housing units on these lots on reverse auction basis.
4. Builder/Developers will arrange construction of housing units by using their own equity or arranging construction financing from the banks on commercial terms.
5. The land will not be subsidized. However, the price of land will not be recovered from the builder/developer and will be recovered from the home buyers thus reducing construction financing cost.
6. NPHA will allocate houses on first come first serve basis with preference given to those who do not have their own residential unit.
7. Buyers will have to pay 20% of the house cost as down payment and obtain mortgage loan approval for 80% of the house cost from a commercial bank.
8. Mortgage repayment term can be up 20 years.

It should be stressed that NPHA, as announced, will not play a role in arranging housing finance. Both the developers and end-buyers will have to qualify with their own banks for construction financing and mortgage financing respectively. NPHA will act as a facilitating agency only - it will acquire the land, approve the builder and allocate the final units to end users based on prior defined criteria.

Unlike the SBP Policy, NPHP is not specifically targeted to the low-income population. It gives preference to those households that do not own an independent residential unit in Pakistan. There is no upper income limit for the applicant; however, the current NPHP application form caps the maximum mortgage repayment instalment at PKR 20,000 per month. It is likely, NPHP arrived at this instalment amount using SBP definition of low-income of PKR 60,000 per month and using 33% mortgage expense as a sustainable level. The table below gives the comparison between SBP policy and NPHP policy:

	NPHP Policy	SBP Policy
Interest (per annum)*	8.50%	8.50%
Instalment Amount	PKR 20,000	PKR 21,691**
Tenor (years)	20	12.5
Mortgage Financing Amount	PKR 2,304,617	PKR 2,000,000
Loan To Value (LTV)	80%	80%
Max House Price that can be financed	PKR 2,880,771***	PKR 2,500,000
Down payment (20% of house price)	PKR 576,154	PKR 500,000

** Calculated as per SBP policy (blended average of 5% SBP rate and 12% fixed commercial bank rate).*
*** Calculated based on SBP Policy defined criteria. SBP Policy does not cap the instalment amount.*
**** This amount is calculated based on tenor, LTV, max instalment amount as per NPHP. NPHP doesn't cap the max price at this value.*

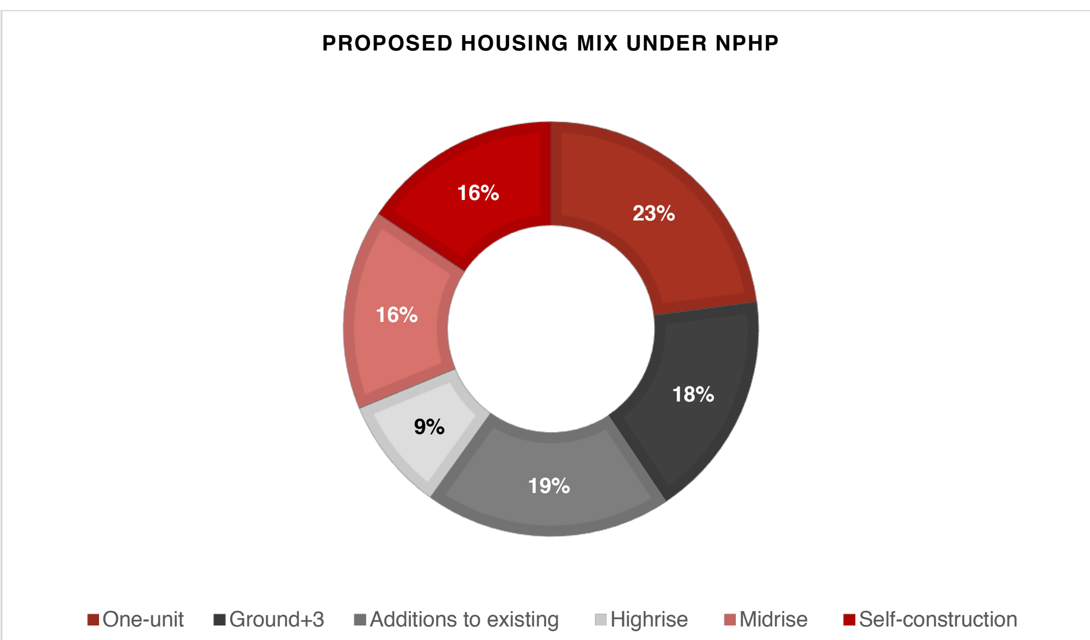
The government aims to facilitate construction of approximately five million housing units at an average price of PKR 3 million over the next five years. The government projects that around two million units will be delivered through NPHP. The remaining, we expect, are likely to be delivered through the open market – facilitated by the streamlining of processes and an overall boost in economic activity. The table below gives an estimate of various types of housing units projected to be delivered.[17]

Description	Year 1	Year 2	Year 3	Year 4	Year 5
One unit	200,000	200,000	200,000	250,000	250,000
Ground+ 3	100,000	150,000	200,000	200,000	200,000
Additions to existing	100,000	225,000	200,000	200,000	200,000
Highrise	50,000	75,000	100,000	100,000	100,000
Midrise	100,000	150,000	150,000	150,000	200,000
Self construction	100,000	150,000	150,000	150,000	200,000
Total*	**650,000**	**900,000**	**1,000,000**	**1,050,000**	**1,250,000**
Subtotal of those which will be built under APNA Housing Authority	**150,000**	**400,000**	**500,000**	**500,000**	**500,000**

Source: www.insaf.pk

**(Disclaimer: The source table has a minor computational error which does not fundamentally change the analysis presented).*

The chart below provides the composition of the various housing units to be built as per the aforementioned table. The programme is favoring low-rise single-family homes at 58% (23% one-unit, 16% self-construction, and 19% additions to existing) of total units to be delivered and appears biased against housing units in a high-rise as they comprise paltry 9% of the total units to be delivered.



3 Assessing the proposed policies

Both the SBP policy and the NPHP are attempts to offer low-cost housing options to low-income groups. Both the SBP Policy and NPHP rely on mortgage financing mainly from commercial banks to enable low income borrowers to buy the low-cost units. Both the SBP policy and NPHP presume that with the strengthening of eviction and foreclosure framework, commercial banks will become comfortable to provide mortgages to low-income group. Yet both the SBP policy and NPHP fail to recognize that the concentration of low-cost units can lead to the intensification of poverty. In addition, both the SBP policy and NPHP fail to appreciate that banks provide mortgage financing based on their assessment of repayment capacity of the borrower.

3.1 Intensification of Poverty

Government is cognizant that high land price is one of the main reasons for the unaffordability of housing and has also emphasized that it will not be subsidizing the land cost. Without a subsidy, it is unfeasible to deliver a low-rise unit at a low-cost within the urban core (as already explained). This will push the low-cost, low-rise housing to the urban periphery or even beyond. Such communities are usually far from places of work, educational institutions and healthcare services leading to measurable decline in financial and psychological health of the residents on account of larger share of income and time going towards transport[18].

Alternatively, the policy makers envisage delivery of high-rise towers in the urban core, as a means of apportioning the high cost of the land to a large number of low-cost units will keep the units affordable. This approach has been extensively covered in economic and social literature[19]. One of the lessons from other experiences is that that concentration of low-income units in high-rise contexts (such as council housing in UK, or “projects” in the US[20]) lead to ghettoization, resulting in an intensification of poverty and crime in the area. Furthermore, low-income households do not have sufficient disposable income to contribute towards the maintenance expenses of the community, with the result that there is rapid deterioration in housing schemes/high-rise complexes comprised exclusively of low-cost units. Commercial banks will be cautious to commit to twenty-year mortgages for units in such communities. A stronger eviction/foreclosure framework will not convince the bank otherwise.

3.2 Ineligibility of the Borrowers

Approximately 68% of the urban working population is employed in the informal sector of the economy[21] without a verifiable or steady source of income. Both SBP Policy and NPHP are targeting borrowers earning less than PKR 60,000. NPHP even allows the income of all family members of the borrower household to be clubbed to calculate the mortgage amount. If the combined household income still classifies the family as a low-income group, there is a high likelihood that all of the earners are part of the informal economy. Commercial banks decide on extending a mortgage loan after assessing the borrower’s repayment capacity. Repayment capacity is calculated by verifying the borrower’s income history, future income potential and net worth. Unfortunately, a low-income borrower working in the informal sector will not be able to provide the income history, future income potential and net worth to the satisfaction of the bank to qualify. In certain circumstances, banks do qualify a borrower for mortgage by considering the value of the housing unit. However, as shown above, such units will not help the borrower qualify for mortgage.

In summary, mortgage finance to low-income group is the lynchpin of the proposed policies of providing low-cost units. And yet, these policies' focus on the low-cost segment alone will result in the very segment not qualifying for the mortgages. In the absence of mortgage financing, there will be no construction financing for the builder/developer. It is therefore unlikely that the current policies will lead to an increase in construction activity or a reduction in housing stock deficit – certainly not to the extent that is ambitiously targeted to tackle the housing crisis.

4 How to enhance policy effectiveness

Pakistan's housing crisis is not a stand-alone crisis. It is the end-state of a series of policy verticals that have converged to make housing an unaffordable luxury for almost all Pakistanis, especially the poor, and to create an urban sprawl that is unsustainable and inconsistent with the demands of a green Pakistan. Thus, the housing crisis cannot be solved with a vertical approach that produces public policy that is specifically and exclusively targeting the manufacturing of more housing and the acquisition of more home ownership alone. An effective approach to housing policy requires multiple vertical approaches, not only from the bottom up, but from the middle out too. There are three specific areas that can serve to be crucial in the success of the current housing policy interventions, including the Naya Pakistan Housing Programme (NPHP). The first is wholesale urban planning reform, the second is Affordable Housing Obligations (AHOs), and the third is mortgage policy for middle-income families.

4.1 Urban planning reform

From a regulatory and legislative perspective, this is the toughest nut to crack. City administrations are fragmented. For example, Karachi's planning and municipal framework comprises of twenty federal, provincial, and local agencies with separate legal and administrative frameworks, and little institutional coordination[22]. Local governments may exist but do not have the mandate to make their decisions binding on the various agencies and authorities. This weak institutional alignment among agencies makes city administration ineffective when it comes to trying to create space for land development. As an example, nearly 90%[23] of city land in Karachi is under public ownership, but the authorities are often reluctant or unable to make land available for development. Under NPHP, the current planning regime prefers low to mid-rise developments. Karachi and Lahore are amongst most densely populated cities in the world. Local zoning does not allow for high-rises which has resulted in low density sprawl. This administrative restriction on the supply of land for residential units has also resulted in the increase in the price of available land.

To tackle the issue, the government needs to legislate and empower the local governments to be able to bring other agencies on board for integrated city planning, to acquire and/or release unutilized or underutilized lands for development and rezone it to allow high-rise developments. Housing is a provincial issue – the federal government will need to work closely to ensure federal agencies are aligned with the provincial and local government authorities. In addition, wherever possible, the government policy should only allow high-rise units. With a high housing deficit already, and increasing urbanization, the government cannot afford to allow more low-rise units. Ownership rights for high-rise developments should also be reviewed alongside to ensure 'title' of vertical physical spaces are as legitimate as traditional land holding. If low-rise suburban development is the only viable option, then efficient and cost-effective public transport must be developed to avoid the intensification of the poverty circle as discussed above.

4.2 Low-cost Unit or Affordable Housing Obligations (AHOs)

Affordable housing obligations require builders to have a minimum percentage of residential units classified as low-cost in all new high-rise construction. Such obligations are present in the planning laws of many countries, most notably the s106 (Section 106) obligations of Town and Country Act 1990 of England and Wales.

Planning obligations under Section 106 of the Town and Country Planning Act 1990 (as amended), commonly known as s106 agreements, are a mechanism which make a development proposal acceptable in planning terms...The common uses of planning obligations are to secure affordable housing, and to specify the type and timing of this housing[24]

Legislating AHOs will force the developers to build mixed income high-rises. Singapore[25] and Turkey[26], for example, are successfully implementing this model and creating vibrant neighborhoods.

In Singapore:
"Housing estates are carefully designed with mixed-income housing, each having access to high-quality public transport and education, and the famous Singapore hawker centers where all income classes and ethnicities meet, socialize, play, and dine together on delicious and affordable food. At least two such hawker stalls have a Michelin star!

*The apartment blocks are designed to encourage the "*kampong*" (social cohesion) spirit with the "void decks" (vacant spaces on the ground levels of the HDB blocks) and common corridors (common linked spaces that provide access to individual units on the same floor) that foster interactions between neighbors.*

From the very beginning, Singapore planners, constrained by the limited availability of land, chose to build up. As a result, this is one of the densest cities in the world. Yet it constantly scores amongst the highest in city livability rankings."[27]

AHOs have the effect of creating low-cost housing stock in every new building while at the same time not concentrating poverty in a particular building. If the building has a vibrant and thriving community, low-cost units in the building may qualify the low-income borrower for a mortgage. The commercial bank can find comfort in the fact that if the unit has to be foreclosed upon due to borrower default, the unit can easily be sold or given on mortgage to another qualifying low-income borrower.

To be effective[28]:

- AHOs should be applied to all new multi-unit constructions whether a greenfield or rezoning of existing sites.

- AHOs will require all new developments to deliver a particular percentage (percentage of units or percentage of sellable area) as low-cost units. The government can work with town planners, builders, commercial banks to decide on a viable and workable ratio of low-cost units. UK government has developed an appraisal tool in MS-Excel which gives planning agencies an insight into what is a viable ratio of affordable units in a development.[29]

- To be fair to all developers and limit loopholes, AHO obligations should be standard and applied across the board for all multi-unit residential buildings.

- AHOs will require that the low-cost units should be integrated and spread throughout the building i.e. all low-cost unit should not be concentrated on a particular floor.

- AHOs will specify an appropriate size, quality and price mix of the low-cost units.

- The spectrum of units (cost range) developed in a particular project should be balanced to accommodate for socio-cultural context in different localities so as to achieve social cohesion e.g. Malaysia mandates private developers to allocate a minimum of 30% to low-cost housing in mixed development projects[30].

4.3 Mortgage Policy for Middle-income Group

Urban planning reforms lay the ground work, affording housing obligations provide the launch pad, and the provision of favourable mortgage financing to middle-income group has the potential to help "blast off" growth in the supply of housing units. The middle-income group, for the sake of this discussion, comprises of households whose income is more than the low-income group and work in the formal sector such as doctors, university professors, professionals working for corporations. Such borrowers have the capacity to provide adequate evidence of their current income, future income potential and net worth to qualify for a mortgage. At present, the housing deficit is estimated at 10 million units. It can be assumed that middle-income group forms a sizeable percentage affected by this deficit. However, both SBP Policy and NPHP have not offered any indication of an interest in this vital segment, and are thus silent on any kind of bespoke policy framework for middle-income households.

The existing SBP and NPHP framework for financing can be tweaked for middle-income groups as below:

For Borrower	
Participant	All Banks/DFIs
Loan Amount	From PKR 6 million to PKR 15 million*
Extent of Refinance	- Up to 50% by SBP - Remaining 50% by Banks/DFIs from its own funds
Eligibility of Borrowers	- First time home owner - Middle-Income group - For purchasing middle-income apartments in high-rise buildings.
Loan Tenor	Up to 20 years amortization period**
Interest rate	Same as SBP Policy rate for low-cost unit buyers
Limitation	Only allowed for purchasing a housing unit in a high-rise building

For Builder/Developer	
Participant	All Banks/DFIs
Loan Amount	Maximum 75% of the high-rise construction cost.
Extent of Refinance	- Up to 50% by SBP - Remaining 50% by Banks/DFIs from its own funds
Eligibility of Projects	High-rise buildings targeting middle-income and low-income groups.
Loan Tenor	Typical construction period of the building (3-5 years)
Interest rate	Same as SBP Policy rate for low-cost units development
Limitation	Only allowed for constructing a high-rise for middle and low-income groups.

** This is just a suggested range. The range may be refined by carrying out a market study of reasonable prices of a middle-class flat/apartments in the city. Different cities may have a different range based on the land and construction costs.*
*** In developed markets, there is an option of amortization period. For example, loan tenor may be five years but instalments are calculated as if loan tenor is 20 years known as amortization period. At the end of 5 years, the borrower refinances the loan, from the same bank or another bank, for another 20 years or a shorter period. Thus the bank gets repaid in 5 years and borrower gets lower instalments-a win-win situation (notwithstanding potential subprime risk).*

The “limitation” is the key element of this policy. In the absence of this limitation, availability of mortgages will lead middle-income groups to buy low-rise units in suburban housing schemes which may lead to lower density sprawl, will not significantly increase the housing stock for low-income groups and may even exacerbate the problem by encouraging speculation in existing low-rise suburban homes. We expect that this policy will incentivize developers to develop high-rise buildings that cater to this group. If the builder can achieve sufficient bookings from the middle-income buyers that have been approved for mortgages, builders can approach commercial banks for construction financing. If approved, builders may then be able to complete delivery of projects in shorter timespans.

If this policy approach gains traction, it has the potential to increase the annual supply of new housing stock manifold. It will also be important to ensure that Islamic financing options are abundantly available alongside conventional mortgages to avoid exclusion of any eligible households. Regulation/proactive engagement with banks will be needed to ensure Islamic financing options are competitively priced and a certain segment does not end up paying high premium for a different mode of financing.

5 Further considerations

As described above, there are three key policy measures that can vastly improve the currently proposed policy interventions for housing such as NPHP. These are wholesale urban planning reform, Affordable Housing Obligations (AHOs), and a more robust mortgage policy for middle-income families. More broadly, it is clear that to achieve the ambitious targets of NPHP, reforms need to ensure two key outcomes. The first is the use of high-rise construction as a driver of lower prices and increased overall housing availability. The second is the avoidance of deepening poverty traps through ill-conceived low-income units that exacerbate existing divides.

It is important to note that the proposals discussed to enhance policy effectiveness are not exhaustive. There are other options that can be explored and have been tried in different countries. For example, another model is to focus on affordable rentals rather than affordable ownership. Canada, for example, is now focusing on the rental model for increasing access to housing. Rent controls can have other distortionary effects on housing dynamics which will have to be carefully analyzed in the Pakistani context if that option is to be explored. Khuda ki Basti is cited as a good alternative (incremental housing) and it may be so if the idea is just to provide shelter to low-income groups. It does, however, it faces the problem of being located far outside cities (where land is cheap) and is not mortgageable.

The proposals presented in the paper are broad strokes and not tactical inputs on specific implementation modalities. The NPHP blogpost and presentation, on the other hand, touched upon public-private partnerships as an implementation framework wherein government acquires the land and requests bids on reverse-auction basis for development. NPHA may also be involved in designing the buildings. Our recommendations for having AHOs focus on minimizing the NPHA/government involvement by just having affordable obligations across the board. Government intervention, in this case, would be limited to defining minimum compliance criteria for low-cost units to be delivered. It leaves it to builders to deliver on the obligations as they see viable.

One key assumption in the discussion is that mortgage availability to middle income groups will serve as an enabler and incentive for builders to develop projects by accessing construction financing. The policy hinges on builders' interest to engage in these purpose-designed projects. If that is not the case, the government may have to encourage some groups to come forward show-case the opportunity this presents. Such engagement with the builders will have to be carefully crafted to ensure no controversies of favoritism and violation of due process arise. To access construction financing, builders will have to be transparent about their financials and the costs they incur in building the high-rise projects. This has the risk (for builders) to increase their taxable income. This transparency can potentially be a disincentive to builders and will be an important consideration for consultations with the builder community, financial institutions and tax authorities.

NPHP has an inherent assumption that a push in employment will be generated through growth of existing builders and attracting more builders in the ecosystem. Low-cost units are a low-margin business. High-rise construction is a sophisticated undertaking – not all developers will have the technical and financial capability to deliver on such projects. It is also important to be able to achieve economies of scale to keep the cost of housing units in check. The projected scale of housing stock to be increased will certainly create opportunities for more builders but a more likely outcome will be the growth of sub-contractors and ancillary verticals supporting the projects. Another possibility is the increased demand and employment of professionals that can help manage such projects. These professionals may eventually go on to launch their own construction businesses spurring further activity.

Piloting will be crucial for iterative learning through evaluations and subsequent improvements in design and implementation of new projects. This is a virgin territory and there may not be perfect solutions. Holistic pilot projects, drawing on learnings and then expanding outwards can help avoid pitfalls of hasty decisions, uninformed choices and unforeseen consequences.

Other important complementary considerations to ensure that NPHP is successful in the most equitable and fair manner possible include:

- Unutilized and under-utilized land needs to be released from non-productive uses.
- Available land, including land released, must be rezoned for high-rise construction, that is predicated on the establishment of affordable housing obligations (AHOs).
- Concurrent policy measures need to be taken that substantially expand the profile of mortgages and construction financing for middle-income groups by the banking and finance sector.
- All housing policy must privilege increases in the supply of housing stock—including low-cost housing—with a view to the establishment and growth of green technologies,

renewable sources of energy and advanced construction materials. Sustainability in a growing housing sector is a vital ingredient.

- Any large increase in the housing stock also offers the Government of Pakistan an opportunity to improve the data regime for recording, tracking and reporting land, housing, rental and real estate prices data. Such data can be vital in a reform of how property tax is applied and collected.

- With more households entering the formal financial channels, opportunities for economic documentation and data collection can be augmented. These can be incorporated in the larger data regime of accurate, timely and informed planning and delivery of public services.

- All new measures for housing in Pakistan must be contextualized and linked to Pakistan's broader commitments towards the Sustainable Development Goals (SDGs), especially, SDG 11 – Sustainable Cities and Communities.

- According to estimates[31], increasing 100,000 housing units in a year in Karachi could drive growth in over 50 connected industries and possibly contribute 2.2% of the GDP output. Housing development cannot be treated in a silo and has deep linkages with economic growth, transport, environment, and social inclusion.

Endnotes

1 Project Appraisal Document - Pakistan Housing Finance Project [PDF]. (2018, March 8). The World Bank.
2 Ibid
3 Pakistan, State Bank of Pakistan, Infrastructure, Housing & SME Finance Department. (n.d.). *Policy for Promotion of Low-Cost Housing Finance*. Retrieved March 2, 2019, from http://www.sbp.org.pk/smefd/2018/Policy-Promotion-Low-Cost-Housing-Finance.pdf
4 Hasan, A., & Arif, H. (2018). *Pakistan: The causes and repercussions of the housing crisis* (Working paper No. 978-1-78431-630-3). London: International Institute for Environment and Development (IIED).
5 Pakistan, State Bank of Pakistan, Infrastructure, Housing & SME Finance Department. (n.d.). *Policy for Promotion of Low-Cost Housing Finance*. Retrieved March 2, 2019, from http://www.sbp.org.pk/smefd/2018/Policy-Promotion-Low-Cost-Housing-Finance.pdf
6 Pakistan, Ministry of Statistics, Pakistan Bureau of Statistics. (n.d.). *Press Release of Provisional Summary Results of 6th Population and Housing Census- 2017*. Retrieved March 1, 2019, from http://www.statistics.gov.pk/assets/publications/Population_Results.pdf
7 Pakistan, State Bank of Pakistan, Infrastructure, Housing & SME Finance Department. (n.d.). *Policy for Promotion of Low-Cost Housing Finance*. Retrieved March 2, 2019, from http://www.sbp.org.pk/smefd/2018/Policy-Promotion-Low-Cost-Housing-Finance.pdf
8 Pakistan Plots Price Index (Jan 2019). (n.d.). Retrieved from https://www.zameen.com/index/buy/plots/
9 Author's telephonic survey of housing contractors in Pakistan
10 (n.d.). Retrieved from http://hofinet.org/
11 Project Appraisal Document - Pakistan Housing Finance Project [PDF]. (2018, March 8). The World Bank.
12 Jabeen, A., Shengb, H. X., & Aamir, M. (2015). Housing Crises in Pakistan: Review of Population Growth and Deficiencies in Housing Laws and Policies. *International Journal of Sciences: Basic and Applied Research*. Retrieved March 1, 2019, from http://gssrr.org/index.php?journal=JournalOfBasicAndApplied&page=article&op=view&path[]=4632
13 Doling, J., Vandenberg, P., & Tolentino, J. (2013). *Housing and Housing Finance—A Review of the Links to Economic Development and Poverty Reduction* (Working paper No. 362).
14 Aslam, A. K., & Sattar, H. (2018). *Enhancing Builder Financing in Pakistan*(Rep.). Retrieved from https://karandaaz.com.pk/wp-content/uploads/2018/12/Final-report.pdf
15 A timeline of developments in the Ashiana housing 'scam'. (2018, October 05). Retrieved from https://www.dawn.com/news/1437000
16 Pakistan, State Bank of Pakistan, Infrastructure, Housing & SME Finance Department. (n.d.). *Policy for Promotion of Low-Cost Housing Finance*. Retrieved March 2, 2019, from http://www.sbp.org.pk/smefd/2018/Policy-Promotion-Low-Cost-Housing-Finance.pdf
17 Naya Pakistan Housing Project - Corner Stone Of PTI's Economic Uplift. (n.d.). Retrieved from http://www.insaf.pk/public/insafpk/news/naya-pakistan-housing-program-corner-stone
18 Hassan, A. (2004, July 13). Livelihood Substitution: The Case of the Lyari Expressway. Retrieved from http://arifhasan.org/human-settlements/land-housing/livelihood-substitution-the-case-of-the-lyari-expressway/3
19 Samaratunga, T., & Hare, D. O. (2012). High Density High Rise Vertical Living for Low Income People in Colombo, Sri Lanka: Learning from Pruitt-Igoe. *Scientific & Academic Publishing*. Retrieved from http://article.sapub.org/10.5923.j.arch.20120206.03.html#Ref
20 Elkin, M. (2017, August 24). What Everyone Gets Wrong About Affordable Housing. Retrieved from https://www.newamerica.org/weekly/edition-174/what-everyone-gets-wrong-about-affordable-housing/
21 Pakistan, Statistics Division, Pakistan Bureau of Statistics. (2017-8). *Labour Force Survey 2017-18*(Thirty Fourth Issue ed.). Retrieved from http://www.pbs.gov.pk/content/labour-force-survey-2017-18-annual-report
22 The World Bank. (2018). *Transforming Karachi into a Livable and Competitive Megacity* (Rep.). Retrieved from http://knip.gos.pk/wp-content/uploads/2018/05/9-Karachi-Transformation-Strategy.pdf
23 Anwar, F. (2014, September 15). Karachi suffers from a dysfunctional land management system. Retrieved from https://tribune.com.pk/story/762301/karachi-suffers-from-a-dysfunctional-land-management-system/
24 Planning Advisory Service. (n.d.). S106 obligations overview. Retrieved from https://www.local.gov.uk/pas/pas-topics/infrastructure/s106-obligations-overview
25 Jha, A. (2018, January 31). "But what about Singapore?" Lessons from the best public housing program in the world. Retrieved from http://blogs.worldbank.org/sustainablecities/what-about-singapore-lessons-best-public-housing-program-world
26 Bektaş, Yasin. (2017). Mixed-Income Housing Strategy in Urban Renewal Policies and Turkey-Specific Dynamics: Altındag-Gultepe Case, Ankara. MEGARON / Yıldız Technical University, Faculty of Architecture E-Journal. 10.5505/megaron.2017.85570.

[27] Jha, A. (2018, January 31). “But what about Singapore?” Lessons from the best public housing program in the world. Retrieved from http://blogs.worldbank.org/sustainablecities/what-about-singapore-lessons-best-public-housing-program-world
[28] Adaptation - Richard Drdla Associates. (2010). *A Guide to Developing an Inclusionary Housing Program* (Guide). Retrieved from https://www.wellesleyinstitute.com/wp-content/uploads/2010/06/Inclusionaryhousing_Drdla.pdf
[29] Homes and Communities Agency. (2014, November 13). Development appraisal tool. Retrieved from https://www.gov.uk/government/collections/development-appraisal-tool
[30] Bakh, Ba & Zaharim, Azami & Sopian, Kamaruzzaman & Moghimi, Saeid. (2013). Housing for Poor People: A Review on Low Cost Housing Process in Malaysia. WSEAS Transactions on Environment & Development. 9.
[31] Aslam, A. K., & Sattar, H. (2018). *Enhancing Builder Financing in Pakistan*(Rep.). Retrieved from https://karandaaz.com.pk/wp-content/uploads/2018/12/Final-report.pdf