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Urban land and housing markets in the Punjab, Pakistan

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Urban Land and Housing Markets in the Punjab, Pakistan

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Urban Land and Housing Markets in the Punjab, Pakistan

Working Paper 2007-04

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Abstract

Well-functioning urban land and housing markets are critical success factors for achieving robust economic growth. This paper provides an overview of urban land and housing market performance in Punjab Province of Pakistan. It describes the characteristics of well-functioning markets and argues that the Punjab's present markets are not performing. In fact, there exists a range of impediments to efficient urban land and housing market performance: excessive public land ownership, inadequate infrastructure services, weak property rights, counterproductive urban planning policies and regulations, costly subdivision and construction regulations, limited financing for property development and acquisition, rent controls, and distortive taxation mechanisms.

The Punjab Province in Pakistan is in the midst of a profound urban transition, driven by structural economic change. The Punjab is transforming from an agriculturally-based economy to a manufacturing and service-based economy, leading to massive urbanization. This transformation is just getting started and will continue over the next decade. According to the World Bank's Development Data Platform (DDP) database (2006), urban-based manufacturing and service sectors composed 77 percent of Pakistan's GDP in 2003 and more than 90 percent of GDP growth during 1999 – 2003. As the Pakistan economy continues to expand and modernize, urbanization should continue at a strong pace over the next five to ten years. Looking forward, one of the Punjab's key strategic issues is how well its cities function in order to drive overall economic growth.

Effectively managing the expansion of the Punjab's system of cities will largely determine how well the Punjab navigates this urban-based transition to manufacturing and services. Given its rapidity and scale, this expansion poses a major challenge for both Provincial and local governments. While urban population growth averaged 3.4 percent per year between 1981 and 1998, more recently it has increased to seven percent per year. In absolute terms, the Punjab's urban population increased from 12.9 million in 1981 to 22.9 million in 1998, and as of 2001 the Province's urban population stood at 28 million. Over the last twenty years, urban population growth in cities and urban areas of the Punjab increased by an average of about 750,000 persons per year. During the 1998-2001 period, the annual average was much higher at 1.7 million per year.

To foster sustainable economic growth and reduce poverty, the Punjab's main urban centers need to accommodate additional urban growth and support economic development. Well-functioning urban land and housing markets are critical ingredients for success, forming the basis for both private sector growth and the ability to provide shelter to the population.

This paper reviews and assesses how well the Punjab's urban land and housing markets function. The evidence suggests urban land and housing markets are not performing as well as they could. Urban land-use planning and development controls are impeding urban development, while land titling and registration systems hamper real estate development. Systems of local resource mobilization and taxation do not generate sufficient revenues to fund key urban infrastructure. The paper notes several critical negative consequences of poor urban land market performance, namely high land and housing prices, large and expanding katchi abadi developments, poorly located industrial estates, inadequate urban infrastructure, and constrained commercial development.

Without effective policy reform, the Punjab's cities will not expand in step with economic and demographic demand, land and housing prices will continue to remain expensive, and inefficient and unhealthy informal development will predominate. Ultimately, unless there is change, these urban land and housing market impediments threaten the Punjab's future economic development.

Setting the Context

The importance of addressing housing and land issues is underlined by at

least two factors, namely increasing urbanization and economic development. While the pace of urbanization in Punjab prior to 1998 has been slower than that in many other developing countries, recent population estimates suggest urban growth in Punjab was double the Pakistan's average in urban areas, and more than five times the province's general population growth during 1998-2001 (Table 1).

Table 1
Key Demographic Data for Pakistan and Punjab

	Pakistan	Punjab
Total population		
Million (2001)	134 [a]	76
Average annual growth 1981-98	2.7%	2.6%
Average annual growth 1998-2001	0.3% [a]	1.3%
Urban population		
Million (2001)	48	28
% of total (2001)	36%	37%
Average annual growth 1981-98	3.5%	3.4%
Average annual growth 1998-2001	3.5%	7.0%

[a] In accordance with the World Bank's database (DDP) the total population of Pakistan was 141 million in 2001 and average annual growth during 1998-2001 was 2.4%. However, in order to compare Punjab with the national averages on a consistent basis the Census Organization of Pakistan and Pakistan Federal Bureau of Statistics data were used for calculations in this table.
Source: Census Organization of Pakistan (1998) and Pakistan Federal Bureau of Statistics (2001).

Prior to 1998, the majority of the urban growth (74 percent) was generated by natural increase and only 15 percent was due to rural-urban migration (Hasan 2001). However, the recent jump in urban growth may indicate an increasing rural-urban migration, or possibly increased reclassification of rural areas as urban. Furthermore, the actual level of both urbanization and its growth in Pakistan may be underestimated due to the way areas are classified as urban or rural.[1] For example, the expanding ribbon developments along major transport routes, and

peri-urban areas around cities, are still classified as rural even though they have urban characteristics (World Bank 2004a).

Projections of urbanization indicate massive growth at both the national and provincial level. In the case of the Punjab, urbanization trends and projections mirror nationwide patterns. Punjab's rate of urbanization is anticipated to increase from 37 to 60 percent between 2001 and 2030. In terms of absolute increase, between 2001 and 2030 the Punjab's urban population is likely to increase from 28 million to 74 million, which translates into an average increase of over 1 million people per year.[2]

Much of the urban population growth in the Punjab will be concentrated in the province's five major cities with populations above one million: Lahore, Faisalabad, Rawalpindi, Gujranwala, and Multan (Census Organization of Pakistan 1998).

Table 2

Population Trends and Projections, 1981-2005 and 2030, (in '000s)

						2005-30
				%ACGR	%ACGR	Ann. Ave.
City	1981	1998	2005	1981-98	98-2005	Increase
Lahore	2,953	5,144	6,131	3.3%	2.5%	344
Faisalabad	1,104	2,009	2,347	3.6%	2.2%	132
Rawalpindi	795	1,410	1,660	3.4%	2.4%	93
Multan	732	1,197	1,418	2.9%	2.4%	80
Gujranwala	601	1,226	1,442	4.3%	2.3%	81
Total of 5	6,185	10,986	12,998	3.4%	2.4%	730
Other Urban	6,765	11,874	17,788	3.4%	5.9%	999
Punjab Total	12,950	22,860	30,786	3.4%	4.3%	1,729

* Based on the Provincial population growth rate of 3.57 percent per year
Source: Ministry of Planning Vision 2030 Government of Punjab Planning and Development Board.

Table 2 provides population counts for these cities for 1981, 1998 and 2005, as well as projections of populations to 2030, based on national and provincial trends. The total population of the Punjab's five largest cities will increase from 13 million in 2005 to 31 million by 2030, implying the population will increase by 730,000 annually. Lahore will have the largest share of the increase, with 344,000 persons per year. This rapid urban growth poses unprecedented challenges for urban land and housing markets, and the government's capacity to provide adequate infrastructure to support growth.

As the Punjab's economic development improves, the demand for housing, industrial, commercial, and service facilities will also increase (Jiang et al., 1998). This will place considerable pressure on land and real estate markets as investors search for plant locations. In addition, as economic conditions improve, there should be an upturn in the demand for residential real estate from workers, expatriate Pakistanis, and foreign nationals operating businesses in the province.

The Punjab's high rates of urban growth, combined with the restrictive environment for provision of land and housing, have resulted in escalating land prices, driving up the costs of infrastructure and urban development projects while diminishing housing affordability. In the long run, rising land prices drive up labor and business costs, reducing a city's competitiveness (Dowall, 1998). It has also resulted in deteriorated and low-quality infrastructure, large slum/squatter population, and high household expenditures on housing.

Thus, the efficiency of urban land and housing markets can be expected to play an increasingly important factor in driving economic development. Attracting

both foreign and domestic direct investments requires efficient and responsive land and real estate markets in Punjabi cities. How well are these markets working at present? The next two sections provide answers to these questions: what are the characteristics of well functioning and efficient urban land and housing markets, and what is the on-the-ground experience in Punjabi cities?

Characteristics of Well-Functioning Urban Land and Housing Markets[3]

Urban land and housing markets should efficiently allocate land and housing resources between suppliers and demanders. Housing supply should reasonably match the housing demands of households in terms of price, location and quality. For commercial and industrial real estate, businesses should be able to acquire or rent facilities, or purchase land for development, without difficulty and at reasonable occupancy costs. For all classes of real estate, there should be an inventory of land and properties on the market at any point in time so buyers have alternatives, and sellers face competitive pressures from other sellers.

Effective real estate markets are also relatively transparent. Buyers and sellers can readily obtain information of the current prices of land, housing and other real estate being offered on the market at any time. Typically, real estate brokerage services operate within or across markets, and provide information prices, supply, and demand.

In most market economies, private production is the predominant mode of real estate development, for residential, commercial, and industrial facilities. Furthermore, in well functioning urban land markets, most land is privately owned

— public land ownership is limited — usually to less than five percent of the market. (Hong Kong and Singapore are notable exceptions). With a few exceptions, public provision of housing is miniscule relative to overall production — less than five percent. Private real estate markets typically produce housing that is affordable to households in the 30th to 40th percentile of the income distribution, depending on household incomes and housing prices (Dowall and Leaf, 1991). Households with lower incomes typically rent accommodations, share housing with extended families, or postpone forming households. Some are fortunate to get housing assistance from government sources. The private production of residential real estate investment should comprise between five to ten percent of GDP. The level of informal housing occupancy (houses built without approval, title, or adequate urban infrastructure), should be less than 20 percent of the total housing stock (the average rate for middle income developing countries).

The purchase and transfer of land and property should be straightforward, requiring limited time (less than 30 days), and the total costs executing a transaction — sale, purchase, exchange — should comprise less that five percent of the value of the property.

The Punjab's Urban Land and Housing Markets are Not Performing Well

Our review of key performance measures of urban land and housing markets — urban land supply, land prices, quality of the housing stock, access to urban services, construction costs, private sector participation in real estate

development, and levels of informality in the housing production sector — indicate the Punjab's urban housing markets are not efficiently operating.

The total annual national investment in housing of Rs. 150–160 billion (US$ 2.3-2.8 billion) contributes less than one percent to the Pakistan's GDP, significantly below the level in developed and developing countries.[4] Also in terms of housing units constructed per 1,000 population, Pakistan has among the lowest levels in the world – 0.5 units versus the average of 6.7 for developed countries and 1.9 for post-Soviet countries in 2000. As a result, the Government of Punjab estimates the housing shortage in the province is 2.5 million units,[5] while the total annual construction in the whole of Pakistan is only 300,000 units (Ministry of Housing and Works, 2001).

Individual land owners contracting small (and mostly informal) builders construct the majority of housing in Pakistan. However, the data on value-added of the construction sector in Pakistan indicate the government's share has steadily increased from 18 percent in 1999/2000 to 41 percent in 2002/03 (Table 3).

Table 3

Construction in Pakistan

	1999-00	2000-01	2001-02	2002-03	2003-04 (P)
Construction, value added (% of GFCF)	2%	2%	2%	1%	1%
- of which by the private sector	82%	84%	77%	59%	63%
Construction of residential buildings (% of government's capital exp.)	9%	13%	9%	N/A	N/A

NOTE: P – projected; GFCF – Gross Fixed Capital Formation. *Source:* DDP.

While the number of builders appears to be large, the majority of them are informally organized. Only about 270 of the 4,000 members of the Pakistan's Association of Builders and Developers are incorporated companies. In order to avoid taxation and scrutiny from government departments, communication and contracts between the builders and the consumers are carried out mostly orally (Aries Group et al., 2004). However, such a system involves numerous risks for both parties and makes attracting formal financing difficult.

While some changes have begun to take place in the building industry towards greater regularization of operations, they are at the very early stages. For example, some developers such as Eden Developers Limited, one of the larger builders in Lahore, have obtained credit ratings from Pakistan Credit Rating Agency in order to access financing (Aries Group et al., 2004). Yet access to formal financing is still very limited and available to the top builders and buyers in the highest deciles of income distribution. This translates into insufficient supply and high costs that only a small portion of the population may afford. Thus, the majority resorts to informal housing solutions.

Urban land prices and construction costs are high

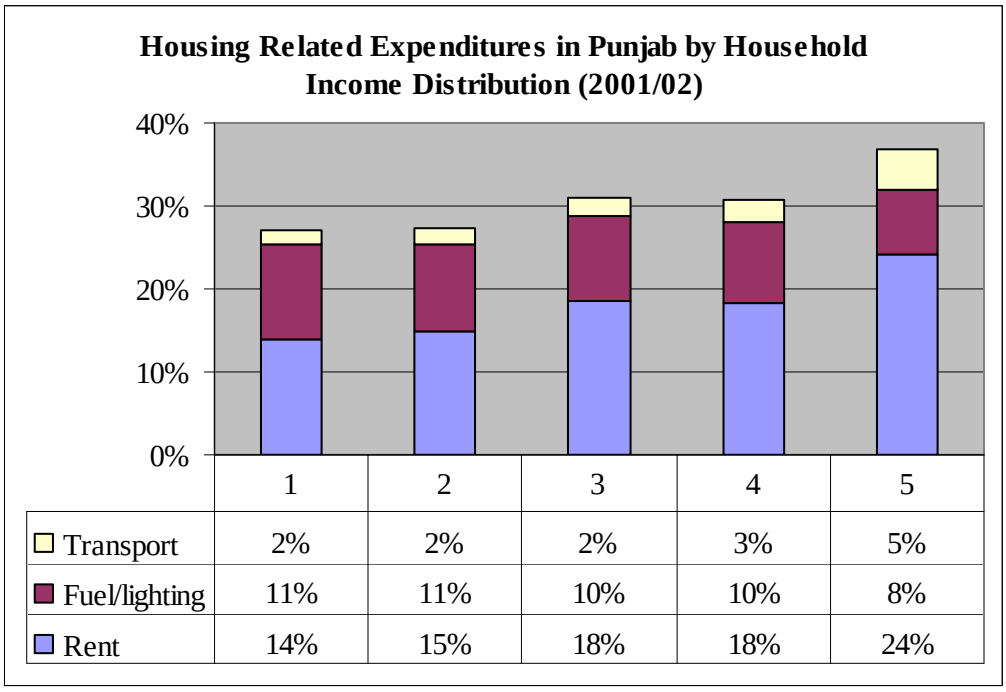
Property prices in the urban areas of Punjab, particularly Lahore, have been increasing rapidly during recent years. For example, in Lahore the ratio of the price of one kanal area (0.005 hectares) to medium household income increased from five in 1998 to 40 in 2004 (Dowall 2004). At the same time, as much as 80 percent of formally developed plots in Lahore remain vacant (World Bank 2004b).

A recent survey of residential land prices indicate raw land prices in newly developing areas of Lahore, Multan, Faisalabad and Rawalpindi range from Rs. 100,000 to Rs. 240,000 per marla (26 square meters). This suggests three to five marla plots (targeted toward low and moderate income households) would fetch between Rs.. 300,000 to 720,000 for a three marla plot and Rs. 500,000 to Rs.. 1,200,000 for a five marla plot. Pakistan's GDP per capita stands at Rs. 132,000, meaning that a three marla plots costs between 2.3 and 5.5 times income, and a five marla plot costs between 3.8 and nine times income.

Residential construction costs are also high relative to income. Average quality construction costs range between Rs. 56-88 per square meter. A modest dwelling unit of 70 square meters would cost between Rs. 450,000 and Rs. 637,500. The ratio of housing cost (plot plus structure) to income (cost of the plot and the house) range between nearly six times income for a basic plot and house, to 14 times income. These ratios are well above what is found in other countries with well-functioning real estate markets (see above).

Consequently, urban households spend a high portion of their income (34 percent in 2001/02) on housing and related services, indicating the negative effects of unintended distortions of urban policies in Punjab (Graph 1).

Graph 1

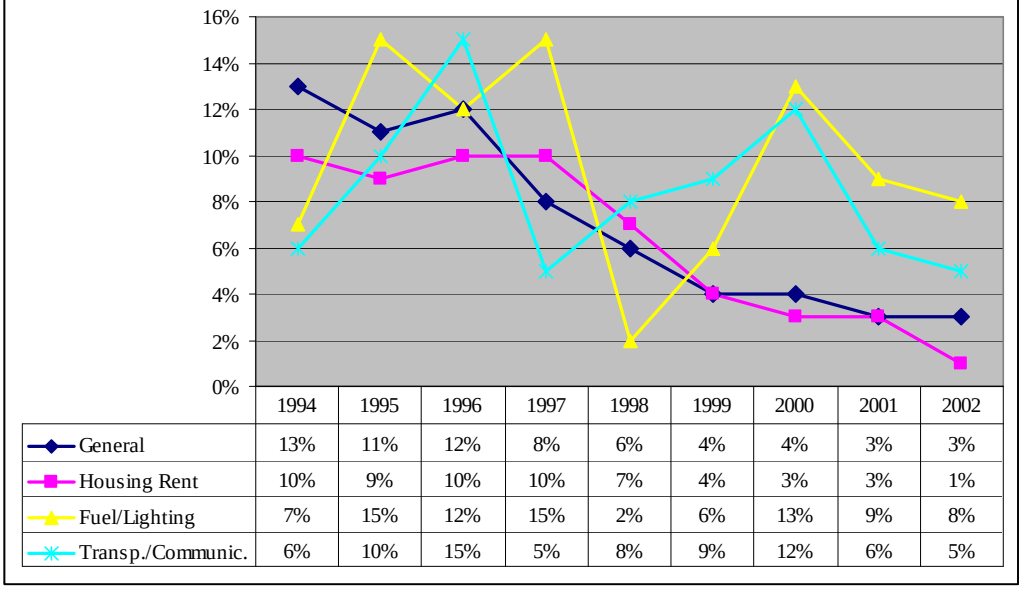


	1	2	3	4	5
Transport	2%	2%	2%	3%	5%
Fuel/lighting	11%	11%	10%	10%	8%
Rent	14%	15%	18%	18%	24%

NOTE: imputed rent is estimated by applying an annual growth of 5.3% since mid 1980s.
Source: Pakistan Federal Bureau of Statistics (2001/02).

Furthermore, housing and housing related expenditures tend to rise at a faster pace than general inflation, mostly due to inflation in fuel, lighting, transportation, and communication costs.

Graph 2



	1994	1995	1996	1997	1998	1999	2000	2001	2002
General	13%	11%	12%	8%	6%	4%	4%	3%	3%
Housing Rent	10%	9%	10%	10%	7%	4%	3%	3%	1%
Fuel/Lighting	7%	15%	12%	15%	2%	6%	13%	9%	8%
Transp./Communic.	6%	10%	15%	5%	8%	9%	12%	6%	5%

Source: calculated by author based on Pakistan Federal Bureau of Statistics (2004)

<u>High land and housing prices have driven households into the informal sector</u>

About 7.5 million people (35 percent of the Punjab's urban population) live in slums, with another 2.8 million (12 percent) living in katchi abadis (ADB 2003). However, this may be an underestimation due to the definition of "katchi abadis," and it is likely that part of the squatter population is not accounted for. ("Katchi abadis" was defined in 1985 as unauthorized settlement on state-owned land of more than 40 dwellings (ADB 2003). Thus, smaller squatter settlements and those on private lands would be excluded). Even with such large slum settlements, household expenditures on housing are reaching levels common in developed countries, although private construction industry is mostly informal and housing finance, at less than 1 percent of GDP, is essentially non-existent.

Formalization of slum and squatter settlements cannot be looked at in isolation from other reforms that are the actual cause of informal housing, i.e., restrictive land and housing policies and regulations, distortive taxation, etc. Furthermore, formalization of slum and squatter settlements, and the associated increase in property values, may displace the poor tenants, as oftentimes is the case with small scale formalization. However, when formalization is carried out on a broad scale, more poor landlords have the incentives to consolidate and expand, ensuring a more elastic supply of rental housing (Galal and Razzaz, 2001). Thus, achievement of desired benefits and more efficient housing and land markets require a comprehensive approach to the reforms.

A related issue is overcrowding. While data are not sufficient to fully assess overcrowding in Punjab, the average household size in the lower deciles of income distribution was almost double that in the higher deciles in 2001/02. The number of people per housing unit increased in Punjab but decreased elsewhere, and indicates constraints in the province's housing market.

Table 4
Main Characteristics of the Housing Stock in Pakistan and Punjab (1998)

	Pakistan	Punjab
Total housing (units)	19,211,738	10,537,127
Urban (units)	6,031,430	3,200,934
Urban (% of total)	32%	30%
Persons per housing unit (average)	6.8	6.9
Urban	7.1	7.2
Persons per room (average)	3.1	3.0

Source: Census Organization of Pakistan (1998).

What's Causing the Poor Performance?

There are a range of factors, working independently and interdependently, to stifle urban land and housing markets in the Punjab. The supply of serviced land is constrained by widespread public ownership of land; inadequate trunk infrastructure provision to developable sites; complicated property rights; land titling and registration systems, and inappropriate and inefficient land use plans and regulations; rent controls; and highly and distorting taxes. These impediments make it difficult for land and housing markets to respond to housing demand and, as a result, land and housing prices are expensive. Consequently, most households are priced out of the formal market and nearly 50 percent of housing is produced through informal procedures without infrastructure, titling, and planning.

High public land ownership

Public land ownership in Punjabi cities is very high. Since partition, government agencies have been granted large parcels of land; in large cities, where local development authorities are seen as the principal vehicle for residential development, large tracts of land have been transferred to these authorities.[6] Unfortunately, the track record of Development Authorities to development residential projects is poor and much of their land is vacant. In Lahore, 30 percent of land is owned by government. In other large cities it ranges from 20 to 40 percent. Much of this land is well located and, if it were placed on the market, could provide opportunities for residential, commercial and industrial development. Previous research on Karachi indicates that high rates of public land

ownership stifle formal urban land market operations, and encourage the development of katchi abadis (Dowall, 1991b).

Inadequate trunk infrastructure and services to residential areas

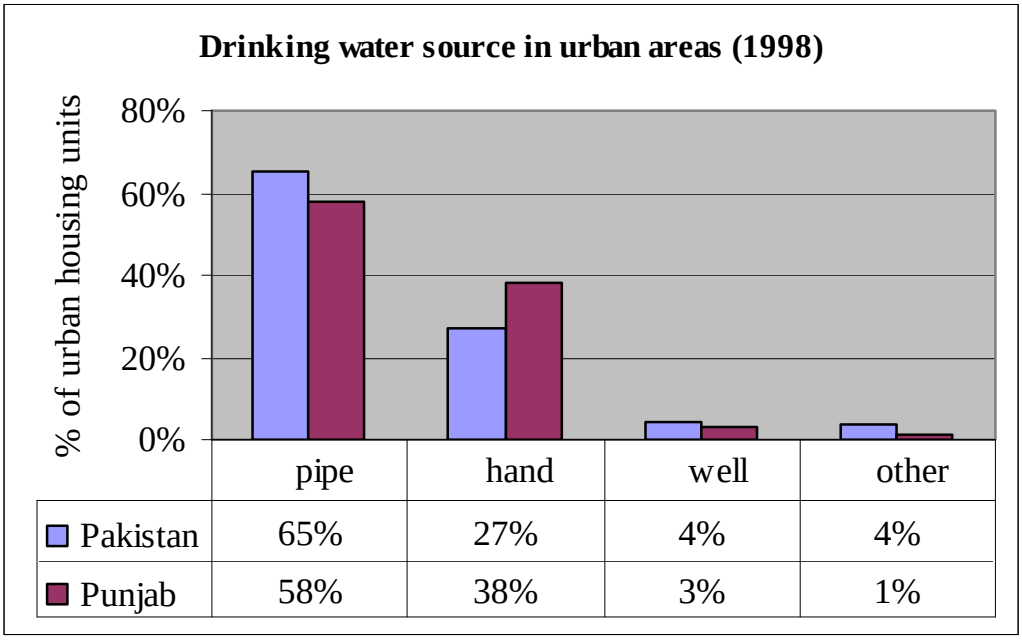
Another reason for constrained urban land supply is that most cities are not able to finance the construction of infrastructure to support development; there are enormous backlogs. For example, Lahore needs to spend Rs. 55 billion (US $ 0.9 billion) over the next five years to close its infrastructure gap. Unfortunately, Lahore's current annual public spending of Rs. 1 billion is only a fraction of the need, estimated at Rs. 11 billion p.a. (Dowall, 2004).

Private developers, including housing societies and cooperatives, routinely face the problem of inadequate availability and/or significant delays in the provision of infrastructure such as roads, water, electricity, sewerage, and gas by public authorities/agencies (Aries Group et al., 2004; FIAS 2005b). This not only increases the costs to developers, but also increases financial risks of real estate projects, limiting the availability of financing, particularly from the formal private lenders. Thus, developers (as well as buyers) revert to savings and informal financing, which is broadly available but very costly. Furthermore, regulations require the developers to pay a large portion of infrastructure costs up-front (25 – 50 percent in Lahore[7]). These factors, combined with the above discussed distortions and uncertainty in regards of property rights, translates into high property prices that are affordable only to a small portion of the high income population and businesses.

Public agencies plan their infrastructure investments based on city master plans and program investments, not economic reality (i.e., "actual demand"). Furthermore, most infrastructure investments are made, and services are provided by, central or provincial government agencies, including Development Authorities. There is little role for, or coordination with, the local governments. Due to highly subsidized services and limited financial capacity of local governments, the available funding for any investment is very limited and insufficient to meet ever-increasing demand. The majority of local government budgets (60 – 70 percent), are spent on recurrent expenditures, while annual development expenditures in 54 percent of Teshil Municipal Administrations (TMAs) are below Rs. 60 (US$ one) per capita.

As a result, businesses and developers face major difficulties in getting connections to utilities — particularly, gas and electricity — which typically delays large-scale construction projects by about 12 months and entails significant bribes (FIAS, 2005b). The consequences of inadequate infrastructure provision are staggering — only 58 percent of the urban housing units in Punjab had connection to the piped drinking water in 1998 versus 76 percent of the province's general population, and 65 percent average in Pakistan. Furthermore, there are great disparities among the districts and TMAs in Punjab — connections to piped water and drainage/sewerage coverage varied from seven to 100 percent and from 29 to 100 percent respectively. (The level of metering of utility consumption is also very low. Even in Lahore only 30 percent of water connections are metered (LDA 2004).

Graph 3



Source: Census Organization of Pakistan (1998).

Water and sewerage services in Punjab are not reliable, nor are they sustainable. In major urban centers of Pakistan, a typical daily service of water supply is nine to ten hours, and service coverage is 32 percent (Ministry of Water and Power of Pakistan, 2002). Furthermore, waste water, including that from industrial consumers, is disposed of without treatment, creating an increased risk to environmental and water pollution (World Bank, 2004a; Ministry of Water and Power of Pakistan, 2002).

Low-cost recovery exacerbates the situation further. Due to the segregated and unclear institutional and organization framework for service provision,

investments are carried out in a piecemeal fashion, rather than large scale or TMA-wide investments in trunk infrastructure and expansion of services.

The Ministry of Water and Power of Pakistan (2002) has recognized the worrying situation in the quality of water in Punjab and the whole country. Drinking water in major urban centers of the Punjab seldom meets WHO Guidelines. Water samples from Lahore, Rawalpindi, and Islamabad have been determined to be unfit for human consumption due to fecal contamination. High concentrations of nitrates have also been detected in drinking waters in Rawalpindi as well as Islamabad and other cities. Nitrate leaching from heavy fertilizer use is also an issue in southern Punjab. Many areas near Lahore have water with very high fluoride content resulting in different ailments of the consumers.

Businesses that use their own water sources as a municipal water supply to industry, are estimated at two percent of the annual consumption by the manufacturers of the major products (29 million m^3 versus 1.5 billion m^3). The industrial demand is expected to increase even further and reach 1.8 billion m^3 by 2011 and 2.3 billion m^3 by 2025 (Ministry of Water and Power of Pakistan, 2002).

A similar situation is observed in solid waste management. In Lahore, solid waste collection is estimated by LDA (2004) to be about 70 percent. There are no sanitary landfills in Punjab and the dumping grounds are not entirely legal (World Bank, 2004a).

Weak property rights and ineffective land titling and registration systems

Another constraint of land supply is caused by inefficient mechanisms for registering property transactions. While registration of property in Pakistan appears to be rather efficient and comparable to other countries[8], it does not guarantee effective title and enforcement of property rights. Incentives for property registration in Pakistan are very weak and procedures have numerous loopholes, as documented in World Bank et al. (2004a) and Aries Group et al. (2004). For example, Pakistan law does not envisage the provision of title certificate by the government. Rather, the records indicate the person responsible for paying property related taxes who is therein presumed to be the owner. However, such ownership documents have been questioned in numerous court cases. The law also allows for optional registration of land or, in some cases, change of ownership. For instance, under Islamic Law oral declarations of gift do not have to be registered. Thus, the system of law allows for legally valid titles to be created without recorded transactions.

The situation is further complicated by *benami* (documented, but unrecorded) transactions (World Bank, 2002b; World Bank et al., 2004; Mahmood, 2004). *Benami* transactions are legally protected in Pakistan under Benami Act and allow the parties to circumvent taxation and restrictions on maximum area of landholding. Among other things, the elimination of *benami* transactions has been recommended by the Word Bank and the International Monetary Fund (World Bank et al., 2004).

Recent studies in Pakistan (Aries Group et al., 2004; and FIAS, 2005b) indicate a number of other issues impeding the development of effective and reliable property records such as: institutional fragmentation among the numerous record keeping entities, inconsistencies in record-keeping methodologies, rules and procedures among and within jurisdictions, lack of security checks, and difficult reconstitution of chains of titles. There are a number of different agencies keeping records related to property rights, including Land Registrar, Revenue and Excise Departments, as well as local Development Authority, Municipal Corporations, Cantonment Boards, and others (World Bank, 2005b). Furthermore, most records are kept manually.

The above situation leads to property records being highly incomplete and unreliable. It is estimated there are over a million land-related disputes pending court resolution in Pakistan, composing 40 percent of all court disputes (FIAS, 2005b). Thus, court proceedings take years to resolve.

Experience in many countries also shows that establishment of clear property title has great potential benefit. Residential plots with clear titles in Jakarta sold at a 45 percent premium over comparable plots without a clear title[9]. The risk of eviction lowered the value of housing units in Manila by 25 percent.[10] Titling resulted in property value increases in Davao (the Philippines) and barrios of Quito (Equador) by 58 percent and 21 percent respectively.[11]

Indeed, a recent survey of more than 700 firms throughout Pakistan[12] revealed land market issues are the most important barrier to investment in Pakistan. Seventy-nine percent of respondents identified land acquisition and site

development regulations as a barrier, and 54 percent of them considered it to be severe. In the case of government land, acquisitions on average required 140 days and 20 different documents and, in the case of private land, 64 days and 10 documents. Furthermore, 53-55 percent of the respondents reported paying bribes to expedite the process for acquisition of land or leasehold rights.

Finally, unclear property rights in Pakistan have resulted in mortgage finance being limited only to the larger urban areas and upper income groups. The unclear property rights in combination with the other restrictive policies discussed in this section also stifle the supply of housing and land, which is particularly important in an environment of a rapid urban expansion.

Counterproductive urban planning and development regulations

Urban planning practices and associated regulation also limit the supply of urban land. Planners seem more interested in controlling urban growth than in framing plans and strategies to accommodate growth and promote economic development (World Bank, 2004a). An example of this is the recently completed Integrated Master Plan for Lahore (IMPL). A review of the plan by the World Bank (2004b) revealed that, while IMPL is very comprehensive, it does not have a strong strategic orientation or clear vision for the future development of the city, based on a consensus among the stakeholders. The need and demand for housing and land are rather different concepts. While the need for housing is determined by the number of households, the actual demand is determined by the incomes.

Contrary to the intention, the proposed zoning and subdivision regulations are more likely to reinforce the current trend of low-density ribbon development; land subdivision regulations could exacerbate the slow pace of construction in Lahore. These issues are particularly important considering the difficult procedures for the commercialization of residential property and rapid urbanization, and are likely to impede the formation and growth of small businesses (World Bank, 2004b).

In terms of urban land regulations, highly restrictive floor area ratios (FARs) appear to be the main constraint limiting the density of urban development. In Lahore, FAR is set uniformly low at 1:1.5. However, in some areas (for multi-story buildings and along major routes), the ratio is set at 1:4 (World Bank, 2004b). In contrast, FARs in center business districts (CBDs) of most large cities in other countries are set at much higher levels of five to 15 (Bertaud 2004).

A FAR set significantly below the level of its market equilibrium has a number of negative consequences and imposes large costs on the city's economy. It increases the demand for land across the city as more land is required for the same amount of floor space (World Bank, 2004b.) A paper by Ohls, Weisberg, and White (1974) showed zoning regulations restrict the supply of land available for development below the level that would be normally exchanged in the market increase land prices. A model developed by Lin, Mai, and Wang (2003) demonstrates how a uniform restriction on the FAR encourages non-productive use of housing capital, raises equilibrium housing prices, and lowers city growth. In contrast, an increasing FAR towards the city center boosts the productive use of

housing capital and reduces housing prices, thus fostering the city's economic growth. Low FARs also cause greater dispersion of economic activity and housing, reducing the benefits of agglomeration effects[13] and requiring lengthier trips.

Furthermore, low FARs limit the quantity of available formal housing within the city's boundaries. This results in greater population densities in any given location within the city, as well as contributing to escalating land and housing prices as already experienced in Lahore. As a result, the poor and lower income households are priced out of the market. In less restricted real estate markets, private developers are able to adjust to the increasing demographic and economic pressures, and rising land and construction prices.

Low FARs have other negative effects, such as lower incentives to invest in development and redevelopment of available land, as discussed by Bertaud and Brueckner (2003), and reduced residential mobility. Restricted mobility affects those in the lower deciles of income distribution the most, as their access to jobs are reduced due to increased transportation time and costs. If the minimum land consumption is not limited or is set sufficiently low, low-income households could afford to locate anywhere in the city. However, when regulations impose low density, the minimum amount of land required for a unit of floor space is usually above the affordability level of the poor. Thus, they are forced to locate further away from CBD and, consequently, from the job markets. Segregation of the poor occurs due to the combination of such restrictions with the increasing costs of land and urbanization. A greater number of people are forced to choose illegal housing and business space arrangements, and sacrifice the level of living and work

conditions. These restrictions have even further negative effects on the environment, due to greater pollution and the need to convert more agricultural land to urban use, to accommodate the artificially created excessive need for urban land.[14]

The magnitudes of these phenomena indicate there are important structural and regulatory constraints affecting housing and land markets in Punjab. To understand the underlying factors and possible causes, the paper reviews the available information in the key areas related to urban housing and land markets in the province: socio-economic context, regulatory framework, urban planning, provision of infrastructure and government programs, and subsidies. Thereafter, the effects of this environment on the housing and land markets are discussed.

For example, Malpezzi and Ball (1991) showed a positive correlation between the general distortions in a country's economy and house price to income ratios in developing countries, i.e., the larger the distortions, the higher the house price to income ratios. Empirical evidence also demonstrates that land markets are rather efficient in capitalizing the impacts of regulation, local public goods, amenities and tax policy, i.e., any discounts (premiums) for restrictive (beneficial) policies and regulations are to a great extent included in the market prices of land.[15]

In Malaysia, the annual costs of inappropriate land-use and housing development regulations were estimated to amount to three percent of GDP in the 1980s (World Bank, 1989a). In Seoul (South Korea), site planning regulations, subdivision controls (i.e., setbacks, plot and street widths and lengths, etc.), FAR

limits, and building codes resulted in a built-up area to land ratio of 0.56 in late 1980s (Dowall and Clark 1996). In an environment of rapid growth, such restrictions fueled land price escalation averaging 24 percent p.a. in Seoul during 1974-1989 (Kim 1991). Contrary to Seoul, more liberal land and building regulations in Bangkok (Thailand) and Bogota (Colombia) allowed developers to adjust construction densities under increasing demand and cost pressures (Dowall and Clark 1996).

In an environment where developers and households cannot adjust construction densities, i.e., increase built-up area relative to the underlying land plot, more people resort to informal solutions. For example, in Karachi in 1988, the average price of a house in a planned housing estate was equivalent to 8 times the average annual income of low income households. Thus, families resorted to informal housing in katchi abadis at a quarter of the cost of planned housing (Dowall 1991a).

While government interventions such as land regulations, property rights, taxation, and infrastructure investments are necessary, they become serious obstacles to development of cities when designed poorly. In choosing the level of regulatory intensity, the government implicitly determines the characteristics of the consumers it wishes to attract (Thorsnes 2000). The critical issues are ensuring balance between the government control and market discretion, and the benefits of regulations and the costs of compliance.

Subdivision and construction standards

Established minimum construction standards affect affordability and implicitly establish the "minimum income" for formal housing and land owners; residents as well. For example, in Jakarta (Indonesia), the minimum land plot size, planned population densities (similar to FARs), and restrictive zoning that had little relationship with the market trends, were estimated to make land affordable to only 5 percent of the urban population (Bertaud 1989).

There has been no recent study of the housing standards in Pakistan or Punjab. However, one of the main conclusions of the World Bank's Shelter Sector Review in 1989 Pakistan was that the housing standards at the time resulted in over-designed and, hence, unaffordable housing. The current guidelines for private housing schemes issued by the LDA, and Punjab Housing and Physical Planning Department, stipulate requirements for land distribution that may very well result in over-designed and expensive housing projects. For example, all private housing schemes are required to have a minimum size of 160 kanals (20 acres), 20 percent of which is to be pledged with the authority as a guarantee of completion of the scheme (FIAS, 2005b). In addition, subdivision regulations require approximately 50 percent of the gross land area of the project be set aside for public uses — circulation, public facilities, parks, etc. A more common and reasonable ratio would be about 30 percent. The maximum ceiling for commercial land is set at a mere two percent.[16] Similarly, only two to three percent of land in a typical government land development scheme is allocated for commercial

properties. Overall, these requirements create perverse incentives for private developers and make it very difficult to produce affordable housing (for example, they can only sell 50 percent of the land they have acquired).

The large minimum size of a housing project forces new residential developments further and further away from a city center, as land plots available for construction tend to be smaller towards the center of a city. Furthermore, large project sizes exclude smaller developers from the formal market; thus, reducing competition, particularly in the lower-end market. The two percent limit for commercial property also limits the availability of new space for businesses. Therefore, it is not surprising that economic development and increasing demand for commercial land translates into skyrocketing prices, due to highly inelastic supply. In addition, most poor live in the areas of their employment, due to the fact they can not afford the costs of daily transportation. Accordingly, segregation of residential and commercial areas, and allocation of such a small portion of land for commercial purposes, works contrary to pro-poor policies, forcing people to resort to informal arrangements, either for housing or for employment.

Limited Formal Property Finance

Another impediment to affordable housing production is that housing finance is very limited in Pakistan, compared to other developing countries in the region and around the world. The outstanding housing loans amounted to US$ 0.4 billion or 0.6 percent of GDP as of December 31, 2003, which is among the lowest levels in the world (Aries Group et al., 2004 and World Bank, 2002a).

Table 5
Outstanding Housing Loans as of December 31, 2003, for Pakistan

	Rs. million	US$ million
Construction	17,336	288.9
Purchase	4,482	74.7
Renovation	883	14.7
Total	**22,700**	**378.3**

Sources: Aries Group et al. (2004).

The major lender for housing in Pakistan is the House Building Finance Corporation (HBFC) – a non-banking institution that accounted for 80 percent of the total formal housing loans (Rs. 30 billion / US$ 0.5 billion) in 2004. However, recently the banking institutions have been increasing their lending for housing, and Citibank and ABN AMRO Bank were the biggest loan originators in terms of annual flows (about Rs. 1 billion / US$ 17 million a year each) (Aries Group et al., 2004).

The main reason for the limited availability of housing finance is the weak enforcement of lenders' rights (mortgage / property rights) and foreclosure laws (for more details, see World Bank et al., 2004; Aries Group, et al., 2003). Funding does not appear to be an immediate issue, due to the recently increased liquidity of the financial sector (World Bank, 2003b). Access to long term resources by mortgage lenders, however, is necessary for the longer term development of mortgage lending.

In order to address this situation, the Government has undertaken a number of steps, as outlined in FIAS (2005b) and Aries Group et al. (2004). The State Bank of Pakistan appointed an advisory group comprising housing and

finance experts, to advise the government on measures promoting the development of housing and housing finance markets. The Financial Institutions (Recovery of Finances) Ordinance of 2001 streamlined the foreclosure process by allowing financial institutions to repossess property without court decision. However, this procedure is currently undergoing an ultimate test as two recent cases have been taken to the superior court. Furthermore, it may take some time for the lenders and borrowers to accept the new procedure as a general industry practice.

The credit regime for housing finance was also recently liberalized by raising the limits for the bank exposure to the housing sector from five to ten percent of their portfolios, increasing the maximum loan to value ratio to 80 percent, increasing loan limits to Rs. five million (US$ 83,333) for individuals and Rs. 7.5 million (US$ 125,000) for groups, and extending the maximum loan term from 15 to 20 years.

The combination of a recent stabilization in the country's economy, the government steps toward liberalization of the financial markets, and the strengthening of lenders' rights are gradually changing the environment for lending. However, for the majority of the population, broad access to formal financial markets will require addressing the underlying sector constraints such as strengthening of property rights, and streamlining housing and land market operations.

Rent Control

Rent control thwarts the construction of new rental apartments and stifles the maintenance of existing units. The current rent control legislation (Punjab Urban Rent Restriction Ordinance of 1959) provides extensive tenant protection for residential and non-residential property and land, when combined with higher taxation rates for rental units, discourage investment in rental property.

In general, the law provides for no rent increase for a three-year period. In the case of land and residential premises, rent can be increased during the three-year period only if some addition, improvement, or alteration to the property has been made by the landlord at the request of the tenant. For non-residential premises, the law allows for an automatic increase in rent by 25 percent every three years.

In the case of tax increases, the landlord may charge the tenant only half of such increase and only upon the approval by the Controller. The Controller is a judicial officer appointed by the Provincial Government, given sole authority to determine the fair rent for land and residential premises, fairness of eviction, building maintenance, conversion of residential building into non-residential, etc. (Punjab Urban Rent Restriction Ordinance, 1959; World Bank et al., 2004).

Eviction is possible in a case of non-payment within 15 days with written contract, and 60 days in a case of no-written contract. However, in a case of new construction or major renovation, the previous tenants have first rights to a rental space of up to the same size in the new building at a fair rent, as determined by

the Controller (Punjab Urban Rent Restriction Ordinance, 1959; World Bank et al., 2004).

While rent control legislation exists in many developed, as well as developing countries (USA; California, District of Columbia, Maryland, New Jersey and New York), and has been studied rather extensively, it still remains a controversial issue. Studies in Cairo (Egypt), Kumasi (Ghana), and Mexico City (Mexico) revealed effective rent controls had indeed helped the tenants who had stayed in the same property over time (Malpezzi and Ball, 1991). In Chile, rent controls lead to a sale of rental houses and apartments to tenants at attractive prices (UN-HABITAT 1989).

The urban rental market in Punjab is rather small and composes an estimated 20 percent of the total. In contrast, with less restrictive tenant laws, rental housing in Islamabad composes 40 percent, which is more in line with that in OECD countries. (The average for OECD countries is 38 percent (The Economist, 30 March 2002). Data for Pakistan are from FIAS, 2005b).

Rent control, to a greater or lesser extent, is usually imposed as a blanket measure, which is also the case in Punjab. Therefore, the benefits are distributed to the general population rather than targeted to the poor and vulnerable, resulting in significant leakage of benefits to the higher income residents. Although rent control is intended to help the poor, oftentimes it does not, as most of the poor in developing countries live in informal settlements that are not covered under rent control and/or are not familiar with the rent control legislation.[17]

Reforming rent control may require a gradual process, as an abrupt elimination may result in immediate shock that would hurt those in the lower deciles of income distribution most, and may prove difficult to implement from the perspective of political economy. Including the case in Punjab, oftentimes rent control is only one of several, and not the most important, factor causing shortages of developed land and discouraging investment in housing (Malpezzi and Ball, 1991).

Distortive Taxation

Property taxes are important revenue sources for local governments in most developed, and many developing, countries. In Punjab, however, in the total revenues of the five largest cities (Gujranwala, Multan, Lahore, Rawalpindi, and Faisalabad), the median share of property taxes was four percent in 2002/03, significantly below the 17 percent median for the large cities in other developing countries. Low levels of property tax revenues stem mostly from significant tax exemptions and the linkage of property taxes to the property's rental, rather than market value and poor collection. A World Bank (2004b) assessment indicates the exemption of properties of less than 5 marla (121 square meters) in katchi abadis, or, in the lowest three levels of the property tax schedule (Zones D-G), is estimated to reduce property tax revenues by as much as 25 percent in Lahore.

Due to the stringent rent control legislation, the rental value of property is also much lower than its market-based rental value would be, resulting in lower property taxes. The capital value is one instrument which is by and large, though

not 100%, neutral from rent control. Preliminary analysis (World Bank 2004b) of the assessment system used in Lahore and other cities indicates that four to five fold increases in property tax revenue is possible by de-linking property taxes from rental values. In addition, collection efficiency also appears to be low in Punjab, as Lahore collected about half of the amount due to it in the form of property tax.

Given the limited revenue generating capacity of the property taxes, it is not surprising that stamp duties have become the main revenue source for local governments. In the five largest cities of Punjab, the majority of tax revenues (87 percent in 2002/03) came from the stamp duty on property transfers (Table 6).

Table 6
Share of Property Taxes in Local Government Revenues in Selected Cities of Punjab

City	Property tax as % of				Property transfer tax (stamp duty) as % of			
	total taxes		total revenue		Total taxes		total revenue	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Gujranwalla	43%	38%	6%	5%	57%	62%	7%	9%
Faisalabad	66%	36%	7%	4%	32%	61%	3%	6%
Multan	25%	4%	4%	2%	73%	96%	11%	55%
Rawalpindi	58%	4%	10%	0%	39%	91%	7%	6%
Lahore	21%	12%	8%	4%	79%	87%	29%	27%
Median	43%	12%	7%	4%	57%	87%	7%	9%

Source: TMA database.

Reform of property taxation towards a more value-based tax system would not only generate more revenue for the local governments, but align the interests

of local governments with those of business development, as an increase in property values would result in an increase in government revenue.

Due to their significant role in local finances, reforming stamp duties is also not a straightforward and easy task. Nevertheless, Punjab government has made significant improvements in this regard, and reduced its stamp duties from five to nine percent, and fees from three to 0.5 percent in 2003 (Table 7).

Table 7
Stamp Duties and Registration Fees in Punjab (2001)

	Stamp duty	Registration fee	Total
SALE			
Agricultural land	4%	1%	5%
Urban immovable property	5%	Rs. 50*	5% + Rs. 50
Other cases than urban property	4%	1%	5%
EXCHANGE			
Agricultural land	n/a	1%	
Urban immovable property	5%	Rs.50	5% + Rs. 50
Other cases than urban property	4%	1%	5%
LEASE			
Of immovable property (2004) [a]	3%	1%**	4%
GIFT			
Agricultural land	4%	1%	5%
Agricultural land in favor of legal heirs	2%	1%	3%
Other cases than Urban property	4%	1%	5%
Urban immovable property in favor of legal heirs	3%	1%	4%
Other cases than urban property	4%	1%	5%
MORTGAGE			
Mortgage deed (2003) [b]		0.25%	

Registration fee is 1% (World Bank et al. 2004).
** in accordance with Revenue Department, Government of Punjab (2001) registration fee was 5/8 of the value of stamp duty (equivalent to 1.875%) in 2001.
[a] World Bank (2004a), [b] Aries Group et al. (2004).
Source: Revenue Department, Government of Punjab (2001).

High stamp duties discourage registration of real estate transactions or a reporting of their true values, thus restricting the full use of the property value. For example, an internally conducted survey by HBFC in 2003 found 50 percent of property owners own their real estate on the basis of Power of Attorney to avoid high taxation. This negatively affects government revenues not only from stamp duties, but from other taxes such as income, sales, and property taxes (World Bank 2004a). In contrast, the initial experience in India (Maharashtra, Punjab, West Bengal), as well as Pakistan, indicates a lowering of stamp duties results in increased, rather than decreased, government tax revenue (Alm et al., 2004; Ali, 2004 for India and Pakistan respectively).

The proposed Punjab Finance Bill for 2004 provided for further reduction in stamp duty on property transactions to two percent.[18] While this would bring Punjab more in line with the other provinces of Pakistan, it is still high relative to other countries such as China, Philippines, and Singapore.[19] Other fees are also levied in Punjab, such as those on the registration of rental contracts and change of property use. For example, land commercialization fee is set at 20 percent of the value of the land.[20]

Due to low tax revenue, the governments have limited resources for provision of infrastructure and services. It has adverse effects on the quality of services and, consequently, residents' willingness to pay not only service changes, but taxes in general. Clearly, distortive taxation policy leads to a vicious circle.

As the national government has started to realize the negative implications of its tax policies, it has envisaged significant reductions in stamp duties and fees

in the NHP. The government has also established a committee comprising federal and provincial officials to examine the provincial tax regimes and prepare recommendations for their rationalization and reform.

Complex Institutional Framework

The overall responsibility for planning in Punjab has been assigned to Punjab Housing & Town Planning Agency (PHATA), which prepares the provincial land-use plans as well as Master Plans, Outline Development Plans, Small Town Development Plans, and City District/Tehsil/Union Council Plans.[21] At the same time the Local Government Ordinance of 2001 (LGO) provides for significant devolution of planning responsibilities to the lower levels of the government. Thus, the actual division of functions and responsibilities is not clear.

Moreover, the different levels of local governments are envisaged as independent units under the LGO without any hierarchical administrative linkages. Such a segregated system results in decisions being made independently by each local government/authority and leads to focusing on individual priorities, rather than broader systemic infrastructure issues (World Bank 2004a).

This fragmentation is generating two very serious problems; first and foremost, service delivery issues across TMAs are ignored. The TMAs have not yet realized that the province will no longer be financing development schemes, so have not adjusted their revenues accordingly. An important related issue is that TMA budgeting is poor, and medium-term budgeting (which is what you do for programming capital investments) is non-existent. Secondly, within TMAs,

administrations sub-divide their TMA capital budget between union councilors so what is provided in the end is piecemeal infrastructure. In addition, the provincial level zoning and building by-laws are inconsistent across authorities resulting in confusion, conflicting policies and decisions, and lack of coherent set of city-wide approaches. This further reinforces the piecemeal approach to the area development practice.

Administration of zoning, building by-laws (e.g., building heights, FARs, etc.), and building approvals are administered by a number of different agencies. For instance, in the case of Lahore, these include the Lahore Development Authority (LDA), Cantonment Board, Defense Colony, and Tehsil Municipal Administrations (World Bank et al., 2004). The processing of applications for site development, approval of related plans, and issuance of associated permits is slow and complex, and may take up to a year to complete. The recent firm survey in Pakistan (the Administrative and Regulatory Costs Survey; FIAS, 2005) revealed that 61 percent of respondents are hiring agents to assist them in obtaining site development permits and 57 percent reported paying bribes to expedite the process. The process requires submission of 61 documents and costs Rs. 569,000 (US$9,810[22]) on average, including Rs. 220,000 (US$ 3,800) in bribes. Obtaining building approval in Lahore may involve up to 18 different intermediate approvals and permits. Site inspections are conducted and development permits issued by numerous authorities. Between the two, a builder/developer could reportedly interface with as many as 15-25 authorities, depending on the specific location.

The public sector's response to the affordable housing shortfall has been in ineffective

The Government of Punjab appears to be focusing more on the direct provision of serviced land through housing development schemes, rather than promoting an enabling environment that would allow the private sector and individuals to take care of their own needs. Unfortunately, public production of residential plots in the Punjab has been minuscule. Presence of federal government in housing provision is rather limited. There appears to be one federal housing program implemented by the Pakistan Housing Authority (PHA) in Punjab, and four projects in operation in Lahore, providing 1,240 housing units. There are no requirements for eligibility under the program. All units are allocated on a "first come – first serve" basis upon down-payment. The government of Punjab had allocated Rs. 4.1-4.7 billion (US$ 70-78 million), or 23-25 percent of its development budget for housing and planning purposes in 2000-02. However, the majority of these resources were allocated for planning purposes, while resources for low income housing and katchi abadis schemes composed less than two percent of the total development budget.

Since 1972, federal, provincial, and local production of plots and units totals 215,000 (Table 8). This works out to about 6,500 plot and units per year on average. (However, many of these plots are vacant and lack infrastructure services). At current rates, the Punjab Province adds about 110,000 households per year. In the best case, assuming that all plots are provided with infrastructure,

government agencies account for slightly less than 6 percent of annual household formation.

Punjab appears to have fallen into a common trap of "too much government" in the areas of zoning, planning, and regulations, and "not enough government" in regards of property rights, provision of infrastructure, and facilitation of the private sector involvement, as described by Dowall and Clark (1996). Experience so far indicates that this approach has not been very successful and has resulted in highly inefficient housing and land markets.

Table 8
Government Housing Programs in Punjab

Program	No. of areas	No. of units	Cost (Rs. million)
PHA schemes	4 (Lahore)	1,240	
3-marla (75m^2) housing scheme (PHATA)	22 (19 completed)	13,495	
ADS (PHATA)	110	104,818 completed	13,922
ADS (LDA)	Lahore	88,662**	
Katchi Abadis Development Program	29 locations		150 (allocated for 2002/03)
Housing for Pakistani Expatriates*	9 cities	6,600	Costs – 1,870 Revenues – 2,637
Housing for the Government Servants	Throughout Punjab, pilot in Mohlanwal (Lahore)		79 in 2000/01 and 150 in 2001/02

Announced, not implemented yet.
** LDA has implemented 21 housing schemes that provided 71,258 plots (Word Bank 2004b).
Source: www.pha.gov.pk and www.punjab.gov.pk

In order to better assess the effectiveness, costs, and benefits of the different programs, more information is needed. However, experience in other

countries indicates public housing and land development, and slum upgrading programs, are generally less effective in addressing housing and land shortages than elimination of the numerous restrictions on the housing and land markets (Bertaud 1989).

Furthermore, studies by Aaron and von Furstenberg (1971), Bradford and Shaviro (1999), and Friedman and Weinberg (1982), show that in-kind subsidies such as allocation of land and housing at sub-market prices and provision of free infrastructure introduce large inefficiencies, usually because the value of the asset to the recipient is lower than the cost of its provision to the government. This results in strong incentives for speculation and resale of property. The extent of the inefficiencies is closely related to the size of the subsidy and elasticity of housing substitution for other goods, and was estimated by Aaron and von Furstenberg (1971) at eight to 60 percent depending on the size of the subsidy. At the same time, limiting the occurrence of resale usually requires extensive and costly government controls.

In-kind subsidies such as subsidized low-income housing projects also tend to reduce residential mobility of the poor, as the subsidy is tied to the location (Bertaud, 2004). While well-designed government assistance would be necessary to ensure adequate housing supply for low-income groups, addressing the policy constraints is crucial for the market, to be able to cater to the needs of the higher and middle-income groups.

Based on the experience so far, and the ever-increasing demand for housing and developed urban land, it is clear that the government will not be able

to address the needs through direct interventions in the market. Other means will be necessary. One of these important aspects is facilitation of greater involvement of private industry. Therefore, understanding the regulatory constraints to more robust private sector engagement in real estate development is a critical part of the analysis.

Concluding Remarks

The key conclusion of this paper is that increasing urbanization and economic development are imposing ever greater pressures on the housing and land markets in Punjab. However, the observable market characteristics, such as rapidly rising property prices and housing expenditures, large informal settlements, limited investment in housing, and small formal mortgage markets indicate significant potential distortions. This paper has pinpointed a range of impediments, including: excessive public land ownership, inadequate infrastructure services, weak property rights, counterproductive urban planning policies and regulations, costly subdivision and construction regulations, limited financing for property development and acquisition, rent controls, and distortive taxation mechanisms. To improve the functioning of urban land and housing market performance, these constraints need to be alleviated.

Any reform agenda should be comprehensive and coherently link together the full range of needed actions. As demonstrated by Galal and Razzaz (2001), the absence of a comprehensive approach, or "road map," to guide the design of reforms, often produces reforms which focus too narrowly on a single issue such

as land registration, mortgage finance, or slum regularization. While such reforms provide positive results, their impact and sustainability can be undermined by distortions in other areas. Thus, achievement of desired benefits, and more efficient housing and land markets, require a comprehensive approach to the reforms. However, since it is not possible to launch all reforms at the same time, prioritization and sequencing are important. Furthermore, "successful implementation requires more than just issuing new laws or regulations. It requires changes in incentives, institutions and behaviors." (Galal and Razzaz, 2001) Finally, any reforms require political commitment from the policy-makers.

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Notes:

[1] While official estimates indicate that 36 percent of Pakistan's population was urban in 2001, Hasan (2001) estimates it to exceed 40 percent.

[2] This estimate is based on the "step-down" method of sub-national population projection. It assumes that the Punjab's total population will remain at 57 percent of the nation, and that its urbanization rate will match the national level.

[3] This section draws on Elliot J Feldman; Michael A Goldberg. Land rites and wrongs: the management, regulation, and use of land in Canada and the United States. Boston OGH, 1988, and Dowall and Clarke, 1995.

[4] Housing construction composed 6% of GDP in Australia and Canada, 3.5% in UK and 4.5% in USA in 2003 (Berger-Thomson and Ellis 2004), 5% in Korea, 6% in Brazil, 3% in Russia and 1% in India (FIAS 2005b). Data for Pakistan are from World Bank et al. (2004a).

[5] www.punjab.gov.pk/hud/govt_servants_housing_scheme.htm and Dawn 2004.

[6] Most of the land for housing purposes is developed by Pakistan Housing Authority, PHATA, Defense Housing Authorities, Cantonment Boards, city development authorities and trusts. The different authorities provide land with infrastructure such as electricity, water and gas, while housing is constructed by the buyers or land recipients.

[7] Lahore Policy for Payment of Cost of Trunk Infrastructure in Advance for Approval of Private Housing Schemes – http://www.lda.gop.pk/lda_cmp.html.

[8] In accordance with Doing Business database, it requires 4-5 procedures and 49 days to register a property in Pakistan, costing the equivalent of 4.2 percent of the property value versus 4 procedures, 34 days and 4.8 percent average in OECD countries (http://www.doingbusiness.org/Default.aspx).

[9] Dowall and Leaf (1991) as cited in Dowall and Clark (1996).

[10] Friedman, Jimenez and Mayo (1988) as cited in Dowall and Clarke (1996).

[11] Jimenez (1984 and 1988) and Simon (1995) respectively as cited in Galal and Razzaz (2001).

[12] Administrative and Regulatory Costs Survey carried out as a part of the Review of Administrative Barriers to investment in Pakistan in 2005 (for a full report see FIAS 2005a).

[13] For discussion on agglomeration effects see work by Glen Ellison and Edward L. Glaeser, Donald R. Davis and David E. Weinstein, Sukko Kim, Stuart S. Rosenthal and William C. Strange, Michael J. Orlando, Ryohei Nakamura, Courtney LaFountain and others.

[14] For discussion on these effects, see work by Alain Bertaud - http://alain-bertaud.com/

[15] For more detail, see Thorsnes (2000), Hilber and Mayer (2001), Ihlanfeldt and Shayghnessy (2004), Cheshire and Sheppard (1995, 2002b), Gibbons (2002), and Cheshire and Sheppard (2004).

[16] Punjab Guidelines/rules and regulations for processing and approval of private housing schemes (http://www.lda.gop.pk/lda_cmp.html).

[17] A study in Bogota (Columbia) found that only 17% of tenants in illegal settlements had a written contract and only 25% of landlords and 20% of tenants understood the rental legislation (UN-HABITAT, 1989).

[18] Daily Times (2004). Information on the actual reduction is not available at the time of this study.

[19] There is no stamp duty in Islamabad. Registration fee is Rs. 150/sq.yard for the transfer of property, which, however, may be quite high depending on the value of property. For example, based on the data in Guitard et al. (2004) it may compose 2-39% of the value of industrial land. In Sindh stamp duty for the transfer of property is 3% and a fee on mortgage registration is 0.2%. (World Bank et al., 2004; Government of Sindh, 2001). Stamp duties on property transfer, lease and mortgages are less than 0.1% in China, 0.1-0.4% in Philippines, 0.4-4% in

Malaysia and 0.4-3% in Singapore depending on the property value and term of lease (calculated based on Alm et al. 2004).

[20] Punjab Rules on Commercialization of Property – http://www.lda.gop.pk/lda_cmp.html.

[21] http://www.punjab.gov.pk/hud/PHTA.pdf and http://www.punjab.gov.pk/hud/index.htm.

[22] Here, and further in the text, the average 2003 exchange rate of US$ 1 = Rs. 58 is used for currency conversions unless indicated otherwise.

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