HOUSE BUILDING FINANCE COMPANY LIMITED

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THE RISE OF SMALL PROPERTIES IN PAKISTAN: AN INSIDE STORY ON PAKISTAN'S REAL ESTATE SECTOR

RESEARCH REPORT

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THE RISE OF SMALL PROPERTIES: AN INSIDE STORY ON PAKISTAN'S REAL ESTATE SECTOR

Pakistan's real estate market is defying expectations, showcasing a dramatic shift in demand towards smaller properties amid economic challenges. Despite the economic hardship making homeownership increasingly difficult for many, prices for small properties have surged, while larger homes are becoming less desirable.

Pakistan is home to a population of ~241 million, with an annual growth rate of 2.55%. Of this population, 61.18% live in rural areas, while the remaining 38.82% reside in urban areas. Reportedly, there are approximately 19.2 million housing units in Pakistan with ~38 million households and an average household size of approximately 6.3. Among these, 68% consist of 1-2 rooms (small homes), 24.43% consist of 3-4 rooms (mid-sized homes), and only 6.92% consist of 5 or more rooms (large homes). This distribution indicates that the demand for small homes is significantly higher across Pakistan.

Skyrocketing inflation rates, averaging 24.5% in FY24 till date, and interest rates peaking at 22%, have significantly eroded the purchasing power of Pakistan's middle class. These economic strains are likely driving middle-income buyers towards more affordable, smaller properties, as securing mortgages for larger homes becomes increasingly difficult. This demand shift helps explain the exceptional growth seen in the small property segment.

Similarly, Over the past 10-years, small properties in Pakistan have experienced astonishing price growth, increasing by 195%. This contrasts sharply with the performance of mid-sized properties, which have underperformed during the same period. This significant divergence highlights a complex interplay between property size, economic pressures, and shifting demand patterns within Pakistan's real estate market.

While middle-income groups grapple with affordability challenges, other market segments tell a different story. Investors with greater financial resources are less sensitive to higher interest rates and may see inflation and rupee devaluation as a strong reason to invest in real estate as a tangible asset. Additionally, the steady flow of remittances from overseas Pakistanis often fuels investment in property, especially in the luxury housing sector. Understanding how these wealthier segments are responding to current economic conditions provides a more holistic view of the market dynamics.

Across Pakistan's major cities, small properties have consistently outperformed medium and large properties. Cities like Karachi, Islamabad, Lahore, Rawalpindi, Faisalabad, Peshawar, Multan, Gujranwala, and Sialkot have all witnessed significant growth in small property returns. Medium and large properties have shown moderate and steady appreciation, with some fluctuations noted in certain cities. This trend indicates a strong preference and higher returns for small properties, making them the engine of growth in the country's real estate sector.

PAKISTAN'S REAL ESTATE PARADOX: RESILIENCE AMIDST TURBULENCE

Despite significant economic turbulence—a 187% PKR depreciation against the USD since 2014 and a 29% inflation rate in 2023—Pakistan's real estate market has demonstrated remarkable resilience. Government initiatives like the Mera Pakistan Mera Ghar (MPMG) scheme, aimed at increasing access to housing finance with lower long-term interest rates, have fueled an unprecedented boom in demand for smaller properties. While this has democratized homeownership, it has also stoked fears of a potential affordability crisis and speculative bubbles. Conversely, the market for larger properties, buoyed by affluent domestic buyers and overseas Pakistanis leveraging favorable exchange rates, has experienced more moderate yet sustained growth. The divergent trajectories within the market underscore the complex interplay of government intervention, economic factors, and investor sentiment shaping Pakistan's dynamic real estate landscape.

HOW SMALLER PROPERTIES ARE RESHAPING PAKISTAN'S REAL ESTATE

Pakistan's real estate market has flourished over the past decade (2012-2023), propelled by a surge in demand for smaller properties. This surge is attributed to a combination of factors, including the depreciation of the Pakistani Rupee against the US Dollar and government initiatives scheme which has democratized access to housing finance.

A closer look at the market reveals a diverse landscape with varying preferences across cities. In the small property segment, Karachi stands out with an astounding 187% cumulative return over past ten eight years, highlighting the city's thriving economy and strong demand for affordable housing. Multan (+155%) and Rawalpindi (+142%) follow closely, signaling robust growth potential in this segment across multiple cities.

However, the narrative shifts for medium and large properties. Gujranwala leads the pack for medium properties with a remarkable 196% cumulative return over eight years, while Multan dominates the large property segment with an impressive 163% return over nine years period. Other cities like Rawalpindi and Islamabad have also witnessed consistent growth in both segments, indicating a balanced market with diverse investment opportunities.

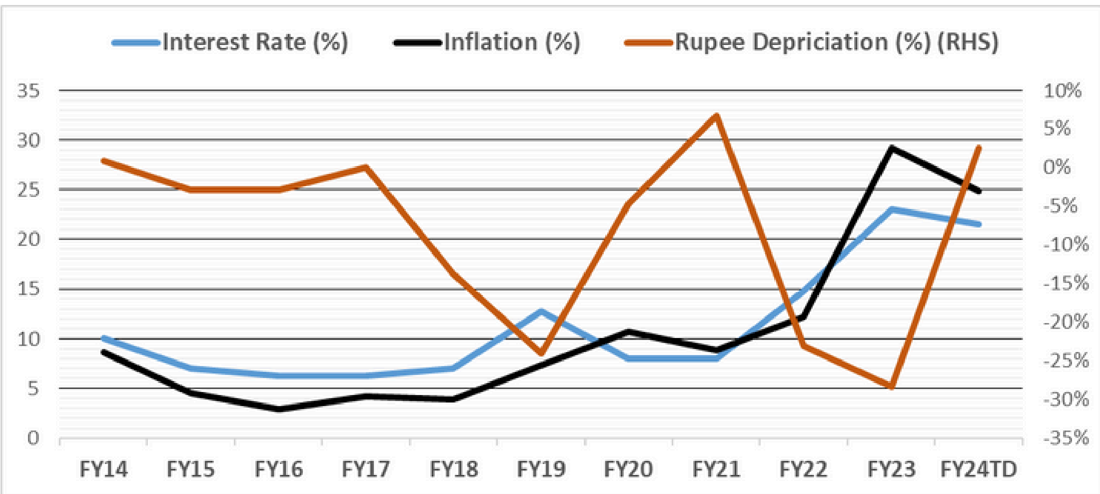
Overall, Pakistan's real estate market presents a vibrant and multifaceted picture, with distinct trends across property types and cities. The strong growth in smaller properties, fueled by shifting middle class from mid-sized properties towards smaller one amid higher inflation and historic interest rates, government initiatives and currency fluctuations, underscores the increasing accessibility of homeownership for a wider population. Meanwhile, the impressive returns in medium and large properties in cities like Faisalabad and Gujranwala reflect a dynamic market with significant potential for investors across various segments.

PAKISTAN'S INFLATION SURGE: A DECADE OF ECONOMIC PRESSURE AND ITS IMPACT ON THE POPULACE

Pakistan's inflation rate has fluctuated significantly over the past decade (2014-2023), with a notable surge in recent years. The period from 2014 to 2018 saw relatively moderate inflation, averaging around 4.43%. However, the rate began to climb in 2019, reaching double digits in 2020 and continuing to rise until it peaked at a staggering 37.97% in May-23. This drastic increase reflects a combination of factors, including global economic pressures, supply chain disruptions, currency devaluation, and domestic policy decisions. The overall average inflation rate for the decade stands at 9.91%, highlighting the significant economic challenges faced by the country in recent years. This escalating inflation has not only posed significant pressure on middle-income people in Pakistan but has also severely deteriorated the economic well-being of lower-income groups, making basic necessities increasingly unaffordable.

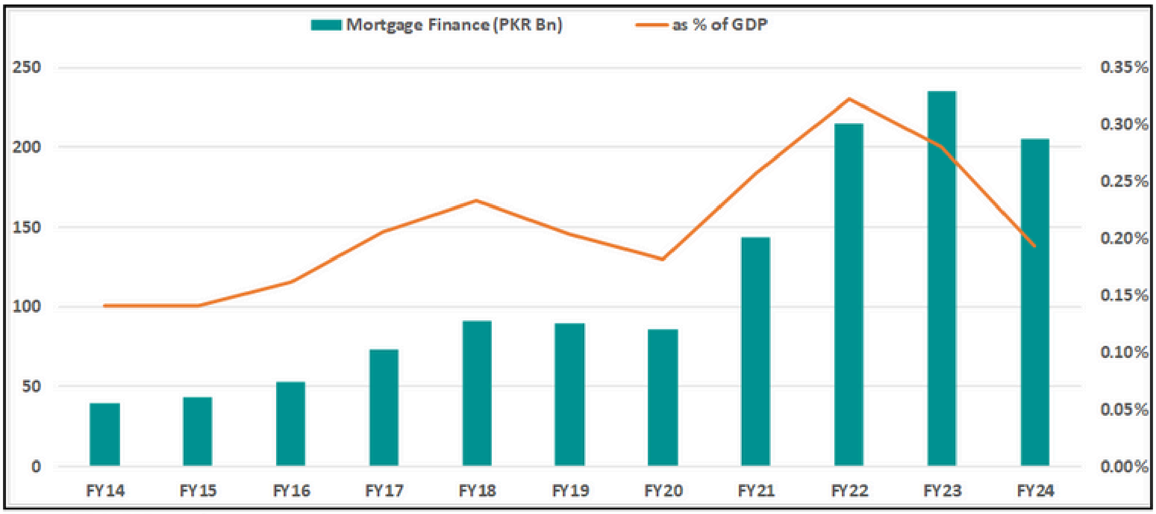
PAKISTAN'S INTEREST RATE ROLLERCOASTER: A DECADE OF PEAKS AND VALLEYS

Pakistan's interest rates have been on a rollercoaster ride over the past decade (2014-2023), reflecting the country's economic fluctuations and policy responses. Starting at a moderate 6% in 2014, rates gradually climbed, reaching a peak of 22% in 2023 due to soaring inflation and economic instability. This peak, maintained throughout 2023, marked a significant hike in borrowing costs for businesses and consumers alike. While recent data suggests a potential easing of rates, the overall trend indicates a decade characterized by volatility and a concerted effort by the central bank to manage economic pressures. These fluctuating rates have had wide-ranging impacts on the economy, influencing borrowing costs, investment decisions, and the overall cost of living for ordinary citizens.



THE RISE OF MORTGAGE FINANCING IN PAKISTAN

Pakistan's mortgage finance sector has experienced remarkable growth over the past decade, with total mortgage financing increasing from PKR 44.276 billion in FY11 to PKR 235 billion in FY23. After a period of stagnation from FY12 to FY14, the sector began to grow rapidly, with a particularly sharp increase from FY20 onwards. This surge can likely be attributed to various factors, including government initiatives like the Mera Pakistan Mera Ghar scheme aimed at increasing homeownership, as well as low interest rates in the aftermath of the COVID-19 pandemic. The significant growth in mortgage financing indicates a growing demand for housing and a greater willingness among financial institutions to lend for this purpose. This trend is expected to continue as Pakistan's population grows and urbanizes, further fueling the demand for housing finance.



Source: SBP, HBFC Research

PAKISTAN'S PROPERTY MARKET: SMALL PROPERTIES LEADING THE CHARGE AMIDST ECONOMIC CHALLENGES

Pakistan's property market has experienced varying growth trajectories across different property sizes over the past decade. Small properties have shown the highest cumulative return of 195%, with significant growth observed in recent years, particularly in 2021 and 2022. Medium properties, while exhibiting a slightly lower cumulative return of 175%, have also demonstrated consistent growth, with the highest annual returns occurring in 2014 and 2023. Large properties, with the lowest cumulative return of 168%, have displayed a more volatile pattern, with periods of high growth interspersed with periods of stagnation or decline. Overall, the data indicates a dynamic and evolving property market in Pakistan, with opportunities and challenges across different property sizes. To get more insights lets delve in to the city wise analysis.

Property Price Trend in Pakistan

Pakistan	Small Properties	Medium Properties	Large Properties
2014	59%	58%	44%
2015	51%	27%	37%
2016	7%	12%	5%
2017	12%	7%	7%
2018	5%	5%	8%
2019	6%	6%	4%
2020	6%	8%	8%
2021	10%	13%	9%
2022	19%	23%	20%
2023	19%	17%	25%
10 Year Cummulative Return	195%	175%	168%
3 Years Cummulative Return	48%	53%	54%

SOURCE: ZAMEEN.COM, HBFC RESEARCH

KARACHI'S SMALL PROPERTY MARKET: A DECADE OF HIGHS AND LOWS

Karachi, Pakistan's largest and most populous city, ranks first in terms of population with an estimated 20.3 million residents and covers an area of 3,527 square kilometers. Karachi's property market reflects its diverse demographics and strategic geographic location on the Arabian Sea coast. The city is home to a growing middle class seeking affordable housing, affluent individuals looking for luxury properties, and a large expat community. With 3.4 million households and an average household size of 5.93, the demand for varied housing options is evident across different economic segments.

Karachi's small property market has experienced a dynamic trajectory over the past decade. Following strong growth in 2012-2014, culminating in a staggering 106% increase in 2014, the market faced a period of stagnation and even minor declines from 2016-2018. However, a resurgence began in 2019, with steady growth culminating in 13% increases in both 2022 and 2023. This volatility resulted in an overall cumulative return of 187% over the ten-year period vs 195% cumulative return by all small properties in Pakistan. highlighting the surge in demand for small houses. The recent three-year cumulative return of 31% suggests a renewed period of growth and a hedge against inflationary pressure.

SHIFTING PREFERENCES: ECONOMIC WOES DRIVE KARACHI'S MIDDLE CLASS TOWARDS SMALLER PROPERTIES

The medium-sized property market in Karachi has underperformed significantly over the past decade, as evidenced by a cumulative return of just 60% compared to 187% and 101% for small and large properties, respectively.

This underperformance can be attributed to various economic challenges faced by the middle class, leading to a noticeable shift in preferences. Middle-class families in Karachi, grappling with rising inflation and economic uncertainties, are increasingly opting for smaller properties. This trend reflects a strategic move to manage costs and maintain financial stability, as smaller properties present a more affordable and sustainable investment option in a volatile economic environment. Consequently, the demand for medium-sized properties remained low, contributing to their lackluster performance.

WEALTHY KARACHI RESIDENTS SUSTAIN HIGH DEMAND FOR LARGE PROPERTIES

Despite economic challenges such as higher interest rates and inflation, the large property market in Karachi has shown robust performance, with a 10-year cumulative return of 101%. This resilience can be attributed to the affluent class, who remain largely unaffected by these economic pressures. The demand for large/luxury properties has stayed consistently high as the wealthy continue to invest in premium real estate. Their financial stability and access to diverse investment portfolios allow them to weather economic fluctuations, ensuring that the market for large, upscale properties remains buoyant and lucrative.

Karachi	Small Properties	Medium Properties	Large Properties
2014	106%	18%	21%
2015	39%	10%	11%
2016	4%	-4%	15%
2017	-1%	1%	15%
2018	-1%	14%	12%
2019	7%	9%	4%
2020	3%	-15%	-8%
2021	5%	-1%	-9%
2022	13%	17%	22%
2023	13%	12%	18%
10 Year Cummulative Return	187%	60%	101%
3 Years Cummulative Return	31%	28%	31%

SOURCE: ZAMEEN.COM, HBFC RESEARCH

Karachi's property market reflects the city's socio-economic diversity, with distinct trends shaping the demand for various property types. While the small property market has seen impressive growth, driven by the middle class's shift towards affordability amidst economic challenges, the medium-sized property segment has struggled due to the same pressures. Conversely, the large property market remains robust, buoyed by the affluent class's sustained demand for luxury real estate, unaffected by economic volatility.

ISLAMABAD'S PROPERTY MARKET: A DECADE OF STEADY GROWTH AND MIDDLE-CLASS APPEAL

Islamabad, Pakistan's capital city and the 9th most populous, has an estimated population of 2.4 million and spans an area of 906 square kilometers. Known for its planned urban layout and relatively stable political environment, Islamabad attracts government officials, diplomats, and professionals. Its property market is characterized by steady growth and a diverse range of housing options, appealing to various income levels and lifestyles. The city has approximately 129,000 housing units, with 46% of the population living in small homes (1-2 rooms), 38% in mid-sized homes (3-4 rooms), and 16% in large homes (5 rooms and above).

The property market in Islamabad has demonstrated remarkable resilience and robustness across all segments. Despite the economic challenges faced by Pakistan in the last three years, the prices of luxury or large homes in Islamabad have surged sharply, with a 62% cumulative return, indicating strong and sustained demand. This trend highlights Islamabad's relative immunity to economic shocks, driven by its status as the capital city, political stability, and consistent demand from both local and expatriate communities. Small and medium properties have also performed well, with cumulative returns of 53% and 58% respectively over the same period, underscoring the broad-based strength of the property market in Islamabad. Factors such as stable governance, better infrastructure, and a perception of security and prosperity contribute to this robust demand, making Islamabad a safe haven for real estate investments amidst economic uncertainties.

Islamabad	Small Properties	Medium Properties	Large Properties
2014	22%	27%	5%
2015	14%	22%	11%
2016	-3%	1%	0%
2017	5%	2%	6%
2018	6%	1%	5%
2019	4%	4%	-2%
2020	16%	22%	6%
2021	12%	13%	13%
2022	17%	24%	15%
2023	24%	21%	35%
10 Year Cummulative Return	117%	137%	94%
3 Years Cummulative Return	53%	58%	62%

SOURCE: ZAMEEN.COM, HBFC RESEARCH

LAHORE'S SMALL PROPERTY MARKET: A DECADE OF RESILIENCE AND RECENT RESURGENCE

Lahore, a cultural and historical center, is the second-largest city in Pakistan with an estimated population of 13 million and an area of 1,772 square kilometers. The city has approximately 2 million households, with an average household size of 6.46. Lahore's property market reflects a mix of traditional and modern housing styles, catering to a diverse population with varying preferences and budgets. The vibrant real estate landscape offers a range of options to meet the needs of its residents, from historical homes to contemporary apartments.

LAHORE'S RESILIENT PROPERTY MARKET: CONSISTENT GROWTH ACROSS ALL SEGMENTS

The property market in Lahore has shown consistent strength across all segments, reflecting a robust demand despite economic challenges. Over the past decade, the cumulative returns for small, medium, and large properties have been 110%, 123%, and 127% respectively, indicating a healthy investment climate. Particularly noteworthy is the performance of large properties, which have yielded a 54% cumulative return in the last three years, demonstrating a sharp rise in luxury home prices. This resilience can be attributed to Lahore's economic and cultural significance, attracting affluent buyers who are less affected by economic fluctuations. Similarly, small and medium properties have also experienced substantial growth, with three-year cumulative returns of 45% and 59%, respectively. This broad-based demand is fueled by factors such as Lahore's growing population, improved infrastructure, and a strong sense of community, making it a prime location for real estate investments even in turbulent economic times.

Lahore	Small Properties	Medium Properties	Large Properties
2014	19%	23%	18%
2015	23%	13%	18%
2016	16%	6%	6%
2017	-1%	5%	6%
2018	3%	4%	5%
2019	3%	5%	8%
2020	2%	7%	13%
2021	7%	14%	10%
2022	21%	24%	19%
2023	17%	20%	25%
10 Year Cummulative Return	110%	123%	127%
3 Years Cummulative Return	45%	59%	54%

SOURCE: ZAMEEN.COM, HBFC RESEARCH

RAWALPINDI'S PROPERTY MARKET: A DECADE OF RESILIENCE AND RECENT RESURGENCE ACROSS SEGMENTS

Rawalpindi, located adjacent to Islamabad and ranking as the 4th most populous city in Pakistan, has a population of 6.1 million and an area of 259 square kilometers. As a major commercial and industrial center, Rawalpindi's property market is closely intertwined with that of Islamabad, with a significant portion of its residents working in the capital city. The city has approximately 1 million households, with an average household size of 6.12. It offers a mix of affordable and upscale housing options, attracting both middle-class families and affluent buyers.

RAWALPINDI'S DYNAMIC PROPERTY MARKET: STRONG GROWTH ACROSS ALL SEGMENTS

The property market in Rawalpindi has exhibited remarkable performance across all segments, demonstrating robust demand and resilience. Over the past decade, the cumulative returns for small, medium, and large properties have been 142%, 107%, and 121%, respectively. Notably, the last three years have seen particularly strong growth in the large property segment, with a cumulative return of 80%, highlighting the sustained demand for luxury homes even amid economic challenges. Small and medium properties have also performed well, with three-year cumulative returns of 52% and 66%, respectively. This growth can be attributed to Rawalpindi's strategic importance, proximity to Islamabad, and the influx of residents seeking better living standards. The city's infrastructure development and economic opportunities have made it a prime location for real estate investments, ensuring that the property market remains robust and attractive across all segments.

Rawalpindi	Small Properties	Medium Properties	Large Properties
2014	24%	24%	26%
2015	35%	5%	0%
2016	-3%	-4%	-4%
2017	12%	0%	2%
2018	5%	0%	3%
2019	7%	7%	4%
2020	10%	10%	12%
2021	13%	20%	16%
2022	20%	29%	33%
2023	19%	17%	31%
10 Year Cummulative Return	142%	107%	121%
3 Years Cummulative Return	52%	66%	80%

SOURCE: ZAMEEN.COM, HBFC RESEARCH

FAISALABAD'S PROPERTY MARKET: A DECADE OF DIVERGENT GROWTH ACROSS PROPERTY SIZES

Faisalabad, a major industrial and agricultural hub, is the third-largest city in Pakistan with an estimated population of 9 million and an area of 218 square kilometers. The city has approximately 1.38 million households, with an average household size of 6.55. Faisalabad's property market caters primarily to the middle class, reflecting a growing demand for affordable housing options and a steady growth in medium-sized properties. The diverse real estate offerings in Faisalabad meet the needs of its residents, balancing between economic affordability and residential comfort.

The property market in Faisalabad has shown a significant trend of growth, particularly in the small and medium property segments. Over the past nine years, small properties have seen a cumulative return of 134%, while medium properties have outperformed with an impressive 194% return. This growth trend is also evident in the recent three-year cumulative returns, where small properties have achieved 59% return and medium properties a 50% return. These figures highlight a strong and increasing demand for smaller and medium-sized homes, driven by Faisalabad's economic expansion and urbanization. Factors such as affordability, increased investment in infrastructure, and a growing population contribute to this rising demand. While large properties have also grown, with a cumulative return of 89% over nine years and 52% over the past three years, the most notable gains have been in the small and medium segments, reflecting their growing popularity among investors and residents alike.

Faislabad	Small Properties	Medium Properties	Large Properties
2016	5%	11%	13%
2017	9%	11%	9%
2018	11%	8%	16%
2019	7%	6%	2%
2020	-2%	-2%	-3%
2021	10%	8%	16%
2022	27%	32%	18%
2023	22%	10%	18%
8 Years Cummulative Return	89%	84%	89%
3 Years Cummulative Return	59%	50%	52%

SOURCE: ZAMEEN.COM, HBFC RESEARCH

PESHAWAR'S PROPERTY MARKET: A DECADE OF EXCEPTIONAL GROWTH WITH A FOCUS ON SMALL PROPERTIES

Peshawar, located near the Afghan border, is a historic city with a rich cultural heritage and an estimated population of 4.7 million, ranking as the 6th most populous city in Pakistan. The city has approximately 691,000 households, with an average household size of 6.88. Peshawar's property market has seen significant growth in recent years, driven by increased urbanization and a growing population. It offers a mix of traditional and modern housing options, appealing to a diverse population with varying budgets, and reflecting its dynamic blend of cultural heritage and contemporary development.

PESHAWAR'S PROPERTY MARKET: ROBUST GROWTH IN MEDIUM AND LARGE PROPERTY SEGMENTS

The property market in Peshawar has experienced varying growth trends across different segments over the past years. Overall, the market has demonstrated notable growth, particularly for medium-sized properties, which achieved the highest cumulative returns over both 6-year and 3-year periods (64% and 63% respectively). Small properties also exhibited strong performance, with a cumulative return of 61% over 6 years, although their returns declined in 2023. Large properties experienced the most volatile returns, fluctuating between a -9% decrease in 2016 and a 28% increase in 2022, resulting in lower cumulative returns compared to both small and medium properties over the long term.

Peshawar	Small Properties	Medium Properties	Large Properties
2016	4%	0%	-9%
2017	4%	0%	3%
2018	8%	1%	8%
2019	15%	15%	16%
2020	13%	23%	16%
2021	16%	25%	23%
2022	10%	15%	28%
2023	1%	4%	2%
06 Years Cummulative Return	61%	64%	57%
3 Years Cummulative Return	43%	63%	55%

SOURCE: ZAMEEN.COM, HBFC RESEARCH

MULTAN'S PROPERTY MARKET: A DECADE OF GROWTH AND DIVERSE OPPORTUNITIES ACROSS SEGMENTS

Multan, a historic city with a growing industrial base, has an estimated population of 5.3 million, ranking as the 7th most populous city in Pakistan. Known for its rich cultural heritage and agricultural production, Multan's property market caters to a diverse population with a range of housing options available across different price points. The city has approximately 887,000 households, with an average household size of 6.04. The diverse real estate offerings in Multan reflect its unique blend of cultural significance and economic growth, meeting the needs of its residents from various economic backgrounds.

MULTAN'S PROPERTY MARKET: EXCEPTIONAL GROWTH IN SMALL AND LARGE PROPERTY SEGMENTS

Overall, the property market in Multan has experienced significant growth, particularly in small properties which showed the highest cumulative returns over both 9-year and 3-year periods (155% and 62% respectively). While large properties initially performed well with an 87% return in 2015, their growth became more moderate over time, eventually resulting in the second-highest cumulative return over the 9-year period (163%). Medium properties displayed the slowest growth, with lower annual returns and the lowest cumulative return of 86% over the 9-year period. However, all property types showed positive cumulative returns over the analyzed timeframe, indicating a generally favorable investment environment in Multan.

Multan	Small Properties	Medium Properties	Large Properties
2015	56%	1%	87%
2016	17%	15%	10%
2017	11%	12%	8%
2018	3%	4%	9%
2019	2%	3%	1%
2020	4%	9%	4%
2021	14%	9%	10%
2022	24%	20%	11%
2023	24%	15%	23%
09 Year Cummulative Return	155%	86%	163%
3 Years Cummulative Return	62%	44%	44%

SOURCE: ZAMEEN.COM, HBFC RESEARCH

GUJRANWALA'S PROPERTY MARKET: A DECADE OF GROWTH AND DIVERGENT TRENDS

Gujranwala, a major industrial center, has a population of 5.9 million, ranking as the 5th most populous city in Pakistan. Known for its manufacturing sector, particularly in the production of electric fans and cutlery, Gujranwala's property market is characterized by a strong demand for both affordable and luxury housing. The city has approximately 849,000 households, with an average household size of 7.02. Significant growth across all property segments reflects the city's dynamic economic landscape, catering to the housing needs of its diverse population and supporting its industrial backbone.

GUJRANWALA'S PROPERTY MARKET: EXCEPTIONAL GROWTH IN LARGE AND MEDIUM PROPERTY SEGMENTS

Overall, the property market in Gujranwala has experienced significant growth, particularly in medium-sized properties which showed the highest cumulative returns over both 8-year and 3-year periods (196% and 60% respectively). Small properties also performed well, with a 128% cumulative return over 8 years. Large properties, while showing lower cumulative returns than medium properties, exhibited strong growth in recent years, with a 41% return in 2023 and a 72% cumulative return over 3 years. This suggests a potentially increasing interest in larger properties in Gujranwala.

Gujranwala	Small Properties	Medium Properties	Large Properties
2016	-6%	108%	6%
2017	71%	7%	5%
2018	4%	10%	8%
2019	13%	6%	4%
2020	5%	5%	8%
2021	5%	22%	14%
2022	17%	15%	17%
2023	18%	24%	41%
08 Year Cummulative Return	128%	196%	102%
3 Years Cummulative Return	41%	60%	72%

SOURCE: ZAMEEN.COM, HBFC RESEARCH

SIALKOT'S PROPERTY MARKET: A DECADE OF EXCEPTIONAL GROWTH WITH A FOCUS ON SMALL PROPERTIES

Sialkot, a prominent industrial city with a population of 4.5 million, is renowned for its manufacturing prowess, particularly in the sports goods and surgical instruments industries. The city has approximately 672,000 households, with an average household size of 6.7. Sialkot's property market reflects its strong economic base, with consistent growth across all property segments and a notable surge in demand for smaller, affordable housing options. The city's dynamic real estate landscape supports its robust industrial sector while catering to the housing needs of its diverse and growing population.

SIALKOT'S REAL ESTATE MARKET: STRONG GROWTH WITH SMALL PROPERTIES LEADING THE SURGE

The property market in Sialkot has experienced significant growth over the past three years, with small properties leading the way. Small properties have achieved a cumulative return of 70%, reflecting strong demand and investment potential in this segment. Medium properties have also performed well, with a 51% cumulative return, indicating healthy demand for mid-sized homes. Large properties, while showing the lowest growth compared to the other segments, still posted a substantial 47% cumulative return, underscoring steady interest in more spacious homes. The year-by-year analysis reveals a consistent upward trend, particularly in 2023, where small and large properties saw impressive returns of 33% and 39%, respectively. These trends highlight Sialkot's dynamic real estate market, driven by economic growth, rising consumer confidence, and increasing urbanization, which are fostering demand across all property sizes.

Sialkot	Small Properties	Medium Properties	Large Properties
2021	12%	4%	5%
2022	25%	26%	4%
2023	33%	21%	39%
03 Year Cummulative Return	70%	51%	47%

SOURCE: ZAMEEN.COM, HBFC RESEARCH

POSITIVE GDP REBOUND EXPECTED TO BOOST PAKISTAN'S REAL ESTATE SECTOR

Pakistan's GDP performance over the past three years has been varied. After a robust growth of 5.8% in FY21 and 6.2% in FY22, the economy contracted by 0.2% in FY23. This downturn was due to a combination of internal and external factors, including political instability, soaring inflation, currency devaluation, catastrophic floods, and a global economic slowdown. The agriculture sector, a significant contributor to the GDP, was particularly hard hit by the floods, while the manufacturing and services sectors also faced significant challenges. Government efforts to stabilize the economy through fiscal tightening and monetary policy measures further dampened growth.

However, signs of recovery have emerged, with a projected growth rate of 2.38% for FY24, driven by a rebound in the agriculture sector and expected improvements in other sectors. In the third quarter (Q3) of the fiscal year 2023-2024, GDP growth was estimated at 2.09%, indicating a positive economic recovery compared to the contraction of the previous year. This growth was primarily driven by higher output in the agriculture sector. While overall economic activity remained subdued at the start of Q3, improvements were expected in the coming months. The provisional growth rate for the entire fiscal year ending June 2024 is estimated at 2.38%.
This modest but positive trajectory reflects the government's efforts toward economic stabilization and recovery following a challenging period of political unrest, inflationary pressures, and currency devaluation. Additionally, Pakistan's per capita income showed positive growth, reaching $1,680 in FY24, up from $1,551 in the previous year. This increase indicates progress in economic development and potential improvements in living standards for its citizens.

The rebound in GDP is expected to have a significant positive impact on Pakistan's real estate sector. Economic growth generally boosts confidence among investors and consumers, leading to increased demand for residential, commercial, and industrial properties. With the agriculture sector's recovery, rural incomes are likely to rise, potentially driving demand for housing and related infrastructure in rural and semi-urban areas. Additionally, improved economic stability and higher per capita income can enhance purchasing power, making property investments more attractive. This upward trend in the real estate market can further stimulate economic activity, creating a virtuous cycle of growth and development.

RESURGENCE IN REAL ESTATE ACTIVITY

Real estate activities, particularly the ownership of dwellings, have shown consistent growth throughout the observed period. In FY23, the sector grew steadily each quarter, with rates of 3.53%, 3.54%, 3.67%, and 3.90%. This positive momentum continued into 2023-24, with growth rates of 4.25%, 4.19%, and 3.74% in the first three quarters, respectively. This sustained demand for housing and a resilient real estate market indicate robust sector performance, even amid broader economic fluctuations affecting other industries.

REAL ESTATE PRICES ARE LIKELY TO REMAIN ELEVATED

Easing inflation outlook and the central bank's decision to reduce the policy rate to 20.5% signal positive economic prospects for Pakistan. This move is expected to stimulate economic growth, boost investor confidence, and significantly benefit the real estate sector. Lower interest rates will make property ownership more affordable, driving demand across residential, commercial, and industrial markets. This positive outlook, coupled with improved consumer purchasing power, is anticipated to contribute to overall economic development and stability in Pakistan.

DATA SOURCES & METHODOLOGY

- Zameen.com
- State Bank of Pakistan
- Pakistan Institute of Development Economics (PIDE)
- Pakistan Bureau of Statistics (PBS)
- HIES survey
- Demographic Survey
- Federal Board of Revenue (FBR)
- Global Property Guide (GPG)

Methodology

Property price data, sourced from zameen.com, was analyzed for various cities across Pakistan. Due to the differing frequencies of data availability per city, return calculations for small, medium, and large properties were based on the segments where data existed for all three categories. This resulted in some returns being calculated over 10 years, others over 9 years, and some over as little as 3 years.

To better understand real estate segmentation and demand in Pakistan, properties are divided into three categories:

1. **Small Properties:** These typically range from 3 to 7 Marla in size and cater to individuals or small families with budget constraints or those seeking starter homes.
2. **Medium Properties:** Ranging from 10 to 15 Marla, these properties are suitable for growing families or those seeking more space and amenities than smaller properties offer.
3. **Large Properties:** Spanning from 1 to 2 Kanal, these properties cater to affluent individuals or large families who desire spacious homes with luxurious amenities and ample outdoor space.

This segmentation provides insights into the diverse needs and preferences of property buyers in Pakistan, enabling a more targeted analysis of market trends and demands across different property segments.