HOUSE BUILDING FINANCE
COMPANY LIMITED

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THE STATE OF HOUSING AFFORDABILITY IN PAKISTAN

RESEARCH REPORT

TABLE OF CONTENTS

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ABSTRACT

Affordability refers to the ability of an individual or household to pay for a good or service without experiencing financial hardship. In economic terms, it is the relationship between the cost of an item or service and the financial resources available to pay for it. Something is considered affordable when its cost does not exceed a reasonable portion of one's income, allowing for the fulfillment of other basic needs and some discretionary spending.

Affordable housing refers to residential units that are reasonably priced across all income segments, from lower and moderate-income households to high-income groups. Housing is generally considered affordable if it costs no more than 30% of a household's gross income, including rent or mortgage payments and essential utilities. This 30% threshold allows households to have sufficient remaining income for other necessities. Affordable housing encompasses various housing types and tenure arrangements, including rental units and owner-occupied homes, and is crucial for maintaining social and economic stability in communities.

The Housing Affordability Index highlights significant disparities in affordability across Pakistan, with Punjab being the most affordable region and Sindh facing the greatest challenges. While affordability varies, Khyber Pakhtunkhwa (KPK) demonstrates more balanced housing costs across income groups, while Balochistan shows moderate affordability. While Sindh faces significant affordability challenges, it interestingly shows lower Principal and Interest (PMI) payments and rent burdens compared to other regions, despite having the highest house prices.. Urban areas, particularly in Sindh, struggle with higher housing and rent burdens, whereas rural regions, especially in Punjab, maintain better affordability. Despite these regional differences, the national outlook suggests a general strain on housing affordability, with middle-income groups facing the most significant challenges.

Further insights reveal that Pakistan's households face relatively high housing expenditure, leaving little room for savings. Urban households, especially in Sindh, bear the brunt of rental costs and housing expenditures, while rural areas present more favorable conditions. An interesting finding shows that rent levels are consistently below the prevailing interest rates across regions. Notably, lower-income groups in urban Sindh and Balochistan are particularly affected, often exceeding their income in housing costs, making it difficult for them to save. Punjab, however, shows more positive saving trends, suggesting that wealthier households in this region have more financial flexibility compared to other parts of the country.

Crucially, the report emphasizes that monthly payment capacity, rather than interest rates alone, is the critical factor in housing affordability. In Pakistan, a minimum down payment requirement of 30% is standard, which significantly impacts affordability calculations. This is particularly crucial in the context of low savings rates across most regions, which makes it difficult for households to meet down payment requirements. . Even with low or zero-interest rates, high house prices relative to incomes can make housing unaffordable. This is evident in the calculation of Equated Monthly Installments (EMI) for median-priced homes, which often exceed 30-40% of monthly incomes, considered the threshold for affordable housing. Global context shows that Pakistan's challenges are not unique. Even countries with very low mortgage rates face similar issues, underscoring that affordability depends more on the balance between house prices and incomes than on interest rates.

Addressing Pakistan's housing affordability crisis demands a multi-faceted, locally-tailored approach. This includes expanding initiatives like the Naya Pakistan Housing Program, Mera Pakistan Mera Ghar schemes, enhancing alternative financing options, and reviving traditional concepts. Policymakers must address regional and urban-rural disparities while fostering collaboration between government bodies and private developers. These efforts aim to create culturally-sensitive solutions that make quality housing accessible to all Pakistanis across various income groups.

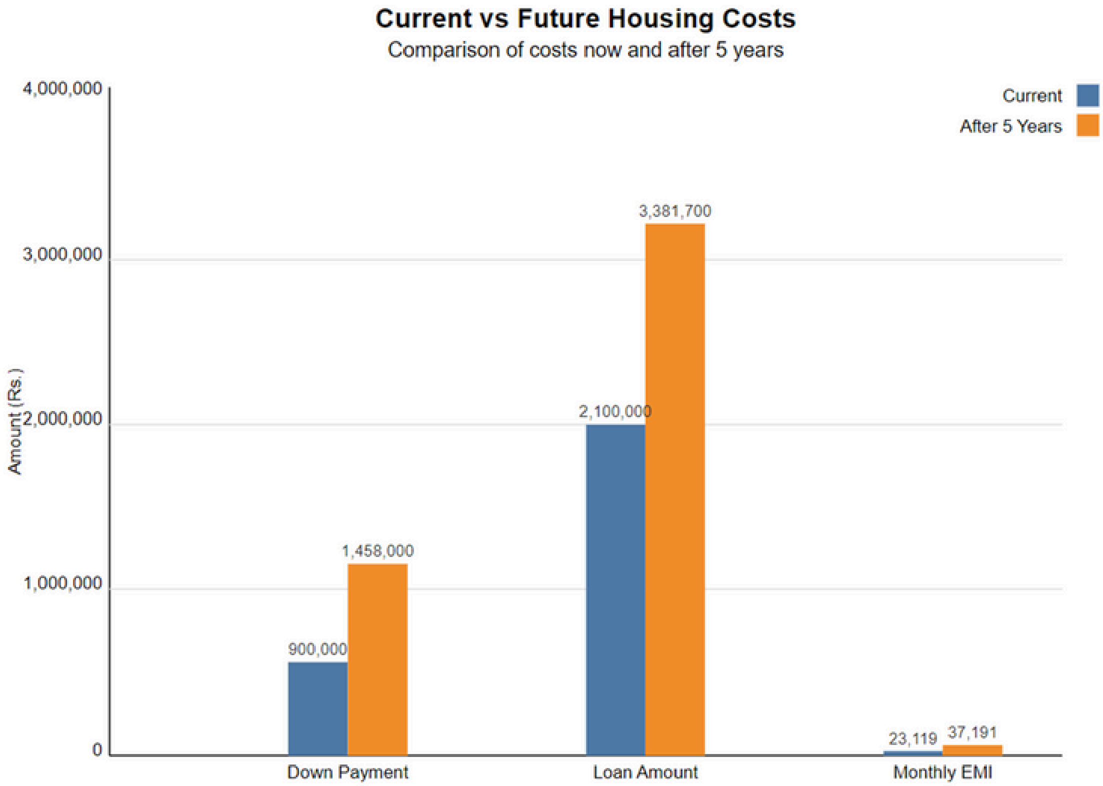
MONTHLY PAYMENTS MATTER MORE THAN INTEREST RATES FOR MORTGAGE FINANCING

When discussing housing affordability, the focus should shift from interest rates to the more crucial factor: monthly payments. Although interest rates affect the total cost of borrowing, what truly determines whether a home is affordable is how much a household can comfortably pay each month. This is especially relevant in developing countries like Pakistan, where rising property prices and stagnant incomes make monthly payments the real challenge.

Affordable housing generally means that no more than 30-40% of a household's income should be spent on rent or mortgage payments. However, in Pakistan, escalating property prices and high interest rates have pushed Equated Monthly Installments (EMI) beyond what the average family can handle. For instance, a typical household with a monthly income of Rs. 63,504 may face an EMI of Rs. 31,603—about 50% of their income—making homeownership unaffordable. Even with zero interest, monthly payments remain too high for many families to afford.

While both house prices and incomes may grow at the same rate—say, 10% annually—the absolute numbers tell a different story. Over a five-year period, a house priced at Rs. 3,000,000 today would increase to Rs. 4,860,000, while a monthly salary might grow from Rs. 63,504 to Rs. 101,902. Although this seems proportional, the down payment requirement rises significantly, from Rs. 900,000 to Rs. 1,458,000, and the EMI jumps by Rs. 14,072. This widening gap makes it harder for families to meet both the down payment and monthly installment requirements, even if their incomes increase.

Globally, we see that housing affordability is less about interest rates and more about monthly payments. Countries like Japan and South Africa provide valuable lessons. Even with low or zero interest rates, housing remains unaffordable in many urban centers because the monthly payments are still too high. South Africa's innovative rent-to-own schemes, which cap mortgage payments at 30-35% of income, offer a potential model to ensure affordability.



Source: HBFC Research

UNDERSTANDING PAKISTAN'S AFFORABILITY INDEX

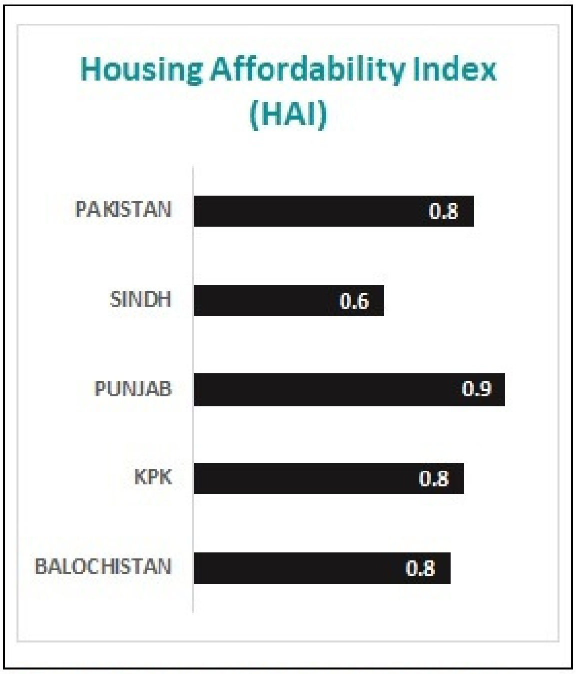
The Housing Affordability Index (HAI) measures housing accessibility by comparing median household income to qualifying income for median-priced homes. An HAI of 1.0 indicates perfect affordability. This analysis of Pakistan incorporates regional factors including 1st quintile house prices, interest rates, mortgage payments, and inflation-adjusted incomes. Assuming 30% income allocation for mortgages, the study offers insights into regional housing affordability challenges across Pakistan.

FROM PUNJAB'S PROMISE TO SINDH'S STRUGGLE

Pakistan's national Housing Affordability Index (HAI) of 0.83 reveals significant regional variations, with Punjab leading (0.93), followed by KPK (0.80) and Balochistan (0.76). Sindh faces the greatest challenges (HAI 0.57), where despite lower rent-to-interest-rate ratios, housing costs require 8.85 times annual income - the highest nationally. The standard 30% down payment requirement, coupled with limited household savings and fewer working members per household than Punjab, further impacts affordability, even as the region maintains the highest mortgage payment percentage (52.86%).

TAILORING POLICIES FOR A DIVERSE PAKISTAN

Pakistan's Housing Affordability Index reveals significant regional disparities, with Punjab showing good affordability while Sindh faces major challenges. This variation necessitates region-specific policies addressing factors like income, housing supply, and financing options. The use of 1st quintile house prices highlights affordability issues for lower-income groups. As urbanization continues, tackling these challenges is crucial for social stability and economic development. Recommended interventions include affordable housing initiatives, income support programs, and mortgage market reforms tailored to each region's needs, aiming to create inclusive and sustainable housing markets nationwide.



Source: HBFC Research, Pbs, Zameen.com

PAKISTAN'S HOUSING AFFRODABILITY IN A GLOBAL CONTEXT

When we place Pakistan's housing affordability in a global context, we find that it stands in a relatively favorable position among the countries analyzed. With an HAI of 0.8, Pakistan ranks higher in affordability than several other Asian and Middle Eastern countries. Sri Lanka faces the most severe affordability challenges with an HAI of 0.2, followed by Turkey at 0.3. Hong Kong, China, and Vietnam all show significant affordability issues with HAIs of 0.4. Egypt's housing market is slightly more affordable with an HAI of 0.6, while Bangladesh comes close to Pakistan with an HAI of 0.7. Pakistan's HAI of 0.8 puts it in a better position than these countries, though not quite as affordable as India and Singapore, both of which have HAIs of 0.9. This comparison reveals that while Pakistan faces its own housing affordability challenges, its situation is comparatively better than many of its regional neighbors.

REGIONAL CHALLENGES VS. GLOBAL COMPETITIVENESS

Pakistan's Housing Affordability Index reveals significant internal disparities, with regions like KPK and Balochistan showing better affordability than Sindh. However, on a global scale, Pakistan's overall housing affordability is comparatively favorable. This complex situation requires balanced region-specific policies addressing factors like income, housing supply, urbanization, and financing options. As Pakistan develops, maintaining housing affordability is crucial for social and economic stability. Policymakers should leverage these domestic and international insights to implement targeted interventions, potentially positioning Pakistan as a model for balanced housing affordability in developing nations.

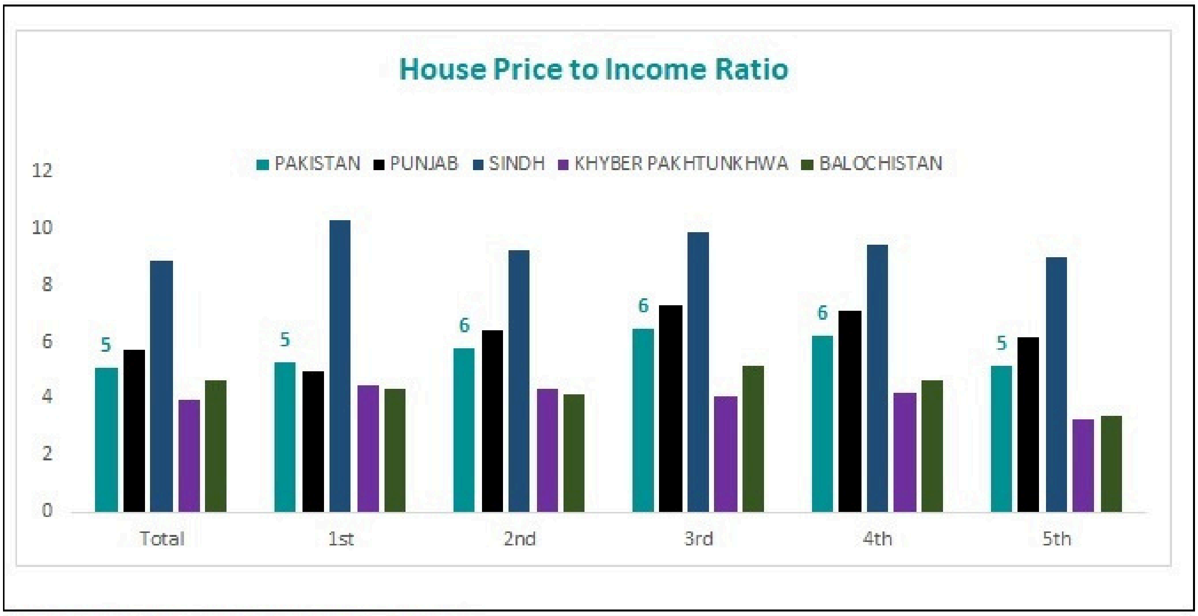
Source: HBFC Research, PBS, IMF, Zameen.com, worldpopulationreview.com

DECODING HOUSING AFFORDABILITY IN PAKISTAN: REGIONAL & ECONOMIC INSIGHTS

The House Price to Income Ratio, a key affordability metric, divides median house prices by annual incomes. Analysis of median income against median house prices reveals critical affordability dynamics: households with median annual income of Rs. 763,000 face median house prices of Rs. 3,850,000, creating a price-to-income multiplier significantly higher than sustainable levels. This ratio varies dramatically by region - in Sindh, median prices are 8.85 times median income, while Punjab shows a more manageable 5.74 times, and KPK leads in affordability at 3.94 times median income. When mapped against the 30% down payment requirement, these ratios indicate that median income earners need 2.65 years of total income in Sindh versus 1.72 years in Punjab just for the down payment. Pakistan's national House Price to Income Ratio of 5.06 masks significant regional variations. Punjab (5.74) and Sindh (8.85) face severe affordability challenges, particularly for middle and lower-income groups respectively. KPK (3.94) offers the most affordable housing, while Balochistan (4.63) shows moderate affordability. Middle-income groups consistently face the highest ratios across regions, highlighting a critical affordability gap in this demographic.

TACKLING PAKISTAN'S HOUSING AFFORDABILITY DISPARITIES

Pakistan's housing affordability pattern shows notable regional disparities, with Sindh facing critical issues while KPK offers more affordable options. Middle-income groups struggle consistently across regions, highlighting the need for targeted policies. Addressing these challenges is vital for social stability and economic growth amid ongoing urbanization. Recommended strategies include region-specific approaches combining income support, housing finance reform, and sustainable urban development to improve affordability across all population segments.



Source: HBFC Research, Pbs, Zameen.com

House Price to Income Ratio	Total	1st	2nd	3rd	4th	5th
PAKISTAN	5	5	6	6	6	5
PUNJAB	6	5	6	7	7	6
SINDH	9	10	9	10	9	9
KHYBER PAKHTUNKHWA	4	4	4	4	4	3
BALOCHISTAN	5	4	4	5	5	3

Source: HBFC Research, Pbs, Zameen.com

URBAN RURAL DIVIDE IN PAKISTAN'S HOUSING COST

The national Housing and Utility Cost-to-Income Ratio averages 21%, revealing a significant urban-rural gap (urban 26% vs. rural 17%). Infrastructure development creates a dual impact - raising housing costs in urban areas while offering better economic prospects. Dual-income households show 15-20% better affordability, particularly in urban centers. This dynamic is most pronounced in Sindh (urban 30% vs. rural 15%), where housing costs reflect both infrastructure quality and economic opportunity concentration. Higher income groups, especially in urban areas, face elevated costs, with Sindh showing the widest range across income quintiles (16%-32%). KPK maintains the most consistent ratios, indicating uniform affordability challenges across its regions.

BRIDGING THE URBAN-RURAL DIVIDE

Housing and Utility Cost-to-Income reveals significant urban-rural and regional disparities. Urban areas, especially in Sindh and Punjab, face acute affordability challenges. Income-based variations, particularly in Sindh, suggest socio-economic inequalities in housing access. As urbanization continues, addressing these issues is crucial for sustainable development and social equity. Recommended strategies include targeted urban planning to increase housing supply, financial support for lower-income groups, and balanced urban-rural development policies.

Source: HBFC Research, Pbs, Zameen.com

Housing Cost-to-Income Ratio		Total	1st	2nd	3rd	4th	5th
PAKISTAN	National	21%	17%	18%	20%	22%	26%
	URBAN	26%	22%	22%	23%	24%	27%
	RURAL	17%	16%	16%	17%	18%	18%
PUNJAB	Punjab	20%	17%	17%	19%	20%	22%
	URBAN	24%	21%	22%	23%	23%	24%
	RURAL	17%	16%	16%	17%	17%	17%
SINDH	SINDH	25%	16%	17%	20%	24%	32%
	URBAN	30%	22%	22%	24%	27%	34%
	RURAL	15%	15%	14%	14%	15%	16%
KPK	KPK	20%	18%	19%	20%	20%	22%
	URBAN	22%	20%	20%	21%	22%	23%
	RURAL	20%	18%	18%	19%	20%	22%
BALOCHISTAN	BALOCHISTAN	21%	17%	19%	22%	23%	23%
	URBAN	24%	24%	22%	25%	27%	23%
	RURAL	19%	16%	18%	21%	19%	22%

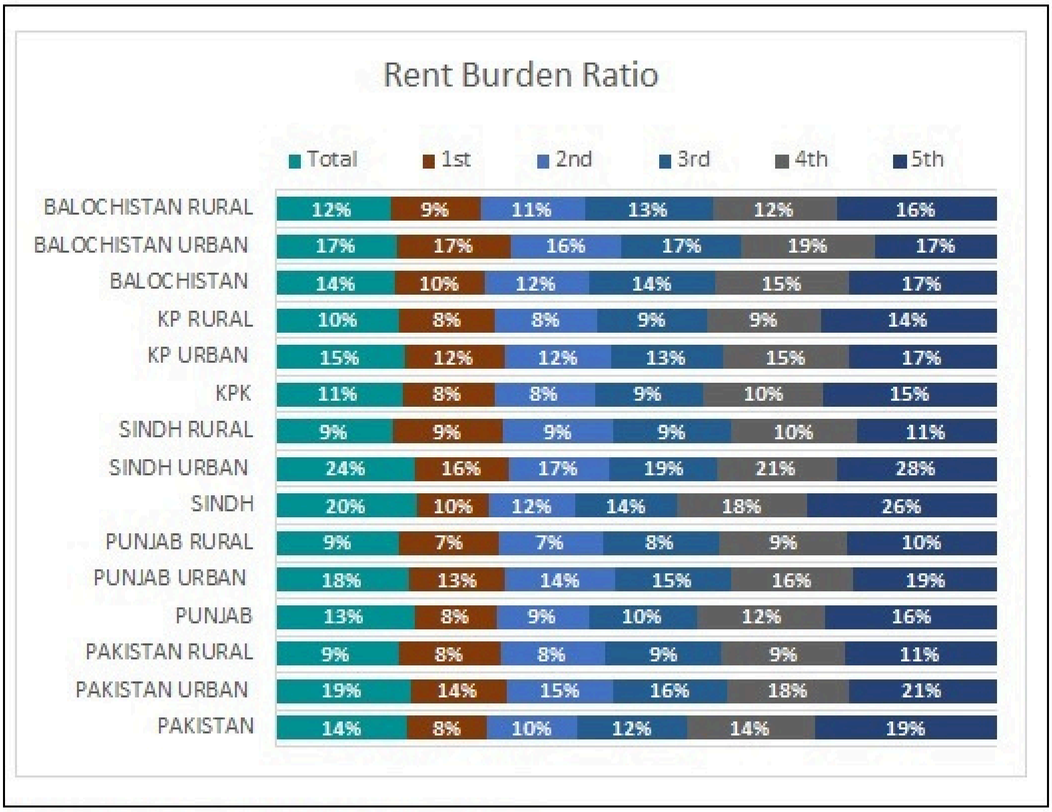
Source: HBFC Research, Pbs, Zameen.com

ASSESSING RENTAL AFFORABILITY IN PAKISTAN

Pakistan's rental market analysis reveals a national Rent Burden Ratio of 14%, with urban areas bearing double the burden of rural regions (19% vs 9%). Pakistan's rental market analysis reveals a national Rent Burden Ratio of 14%, with urban areas bearing double the burden of rural regions (19% vs 9%). While rents generally remain below prevailing interest rates, the combination of low savings capacity and high down payment requirements (30%) creates a rental trap, particularly in urban Sindh where the poor spend 10% and affluent up to 26% on rent. The current Tenancy Act warrants reform to specifically protect minimum wage earners rather than its current broad application, as these households face the most severe affordability challenges. Infrastructure development in peripheral areas, combined with targeted tenancy protection for minimum wage households, offers a more sustainable solution than broad rent control measures. KPK maintains a more uniform ratio at 11%, while Balochistan shows unique patterns with rural middle-income groups facing higher burdens than urban residents.

NAVIGATING PAKISTAN'S RENTAL MAZE

Rental market paints a picture of wide disparities, with urban centers in Sindh and Punjab bearing the brunt of affordability challenges. The analysis unveils a tapestry of disparities: urban dwellers allocating significantly more income to rent than their rural counterparts, and income groups within cities facing vastly different rental burdens. Sindh's urban areas emerge as a crucible of rental inequality, potentially deepening socio-economic fissures. As urbanization accelerates, these findings underscore the urgent need for tailored interventions. Policymakers must weigh options like incentivized affordable housing development, and income-boosting initiatives.



Source: HBFC Research, Pbs, Zameen.com

Rent Burden Ratio	Total	1st	2nd	3rd	4th	5th
PAKISTAN	14%	8%	10%	12%	14%	19%
PAKISTAN URBAN	19%	14%	15%	16%	18%	21%
PAKISTAN RURAL	9%	8%	8%	9%	9%	11%
PUNJAB	13%	8%	9%	10%	12%	16%
PUNJAB URBAN	18%	13%	14%	15%	16%	19%
PUNJAB RURAL	9%	7%	7%	8%	9%	10%
SINDH	20%	10%	12%	14%	18%	26%
SINDH URBAN	24%	16%	17%	19%	21%	28%
SINDH RURAL	9%	9%	9%	9%	10%	11%
KPK	11%	8%	8%	9%	10%	15%
KP URBAN	15%	12%	12%	13%	15%	17%
KP RURAL	10%	8%	8%	9%	9%	14%
BALOCHISTAN	14%	10%	12%	14%	15%	17%
BALOCHISTAN URBAN	17%	17%	16%	17%	19%	17%
BALOCHISTAN RURAL	12%	9%	11%	13%	12%	16%

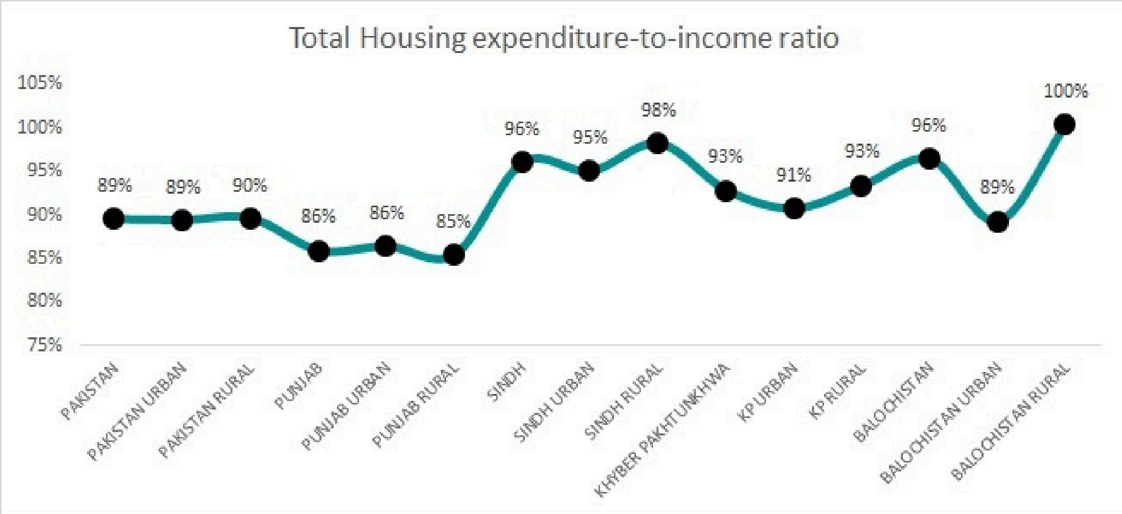
Source: HBFC Research, Pbs, Zameen.com

UNDERSTANDING THE PAKISTAN'S DYNAMIC COST OF LIVING

The Total Housing Expenditure-to-Income Ratio reveals Pakistani households allocating 89% of income to living expenses, with Sindh and Balochistan bearing the heaviest burden at 96%. While low-income groups often face expenses exceeding income, households with multiple earning members show better financial resilience. The 30% down payment requirement particularly impacts regions with high living costs, suggesting that infrastructure development could offer more sustainable affordability solutions. Punjab provides some relief at 86%, while KPK maintains 93%. Though urban-rural differences appear minimal at the macro level, the wealthiest quintile consistently demonstrates greater financial flexibility across all regions.

NAVIGATING HIGH EXPENDITURE TO INCOME RATIOS

The families across the nation allocating nearly 90% of income to living expenses. This fiscal tightrope is most evident in Sindh and Balochistan, where low-income groups often outspend their earnings. Punjab's marginally better scenario offers a glimmer of hope and potential policy insights. The wide gap between the richest 20% and other income groups highlights serious economic inequalities across society. These findings call for a multi-pronged approach: income-boosting initiatives, cost-of-living controls, and targeted support for vulnerable groups. Financial literacy programs could also empower households to better navigate their economic challenges. Addressing these high expenditure ratios is crucial for nation's journey towards economic resilience, poverty reduction, and improved quality of life for its citizens.



Source: HBFC Research, Pbs, Zameen.com

Total Housing Expenditure-to-Income ratio	Total	1st	2nd	3rd	4th	5th
PAKISTAN	89%	94%	93%	97%	97%	92%
PAKISTAN URBAN	89%	97%	96%	95%	94%	86%
PAKISTAN RURAL	90%	94%	89%	93%	91%	84%
PUNJAB	86%	89%	85%	90%	89%	83%
PUNJAB URBAN	86%	92%	94%	92%	92%	83%
PUNJAB RURAL	85%	88%	83%	89%	87%	82%
SINDH	96%	104%	100%	98%	97%	92%
SINDH URBAN	95%	104%	100%	98%	98%	92%
SINDH RURAL	98%	104%	100%	98%	95%	87%
KHYBER PAKHTUNKHWA	93%	93%	92%	95%	96%	88%
KP URBAN	91%	93%	93%	90%	92%	89%
KP RURAL	93%	93%	92%	96%	98%	88%
BALOCHISTAN	96%	102%	104%	104%	93%	77%
BALOCHISTAN URBAN	89%	104%	102%	100%	96%	72%
BALOCHISTAN RURAL	100%	102%	105%	106%	91%	87%

Source: HBFC Research, Pbs, Zameen.com

PAKISTAN'S POST HOUSING BUDGET

Pakistan's Residual Income to Monthly Income Ratio of 79% highlights distinct urban-rural patterns, with rural areas (83%) outperforming urban zones (74%). Multiple-income households demonstrate greater financial resilience, crucial given the 30% down payment requirement. The disparity peaks in Sindh (rural 85% vs urban 70%), where infrastructure costs significantly impact urban disposable income. Punjab and KPK show moderate variations, while Balochistan uniquely shows some urban groups retaining more post-housing income than their rural counterparts.

FINANCIAL RESILIENCE ACROSS PAKISTAN'S DIVERSE TERRITORIES

The national Residual Income reveals a detailed picture of post-housing financial health. Rural areas generally retain more income after housing costs, potentially reflecting lower living expenses or limited access to quality housing. Urban centers, especially Sindh, show tighter budgets post-housing, highlighting city living pressures.

Source: HBFC Research, Pbs, Zameen.com

Residual Income to Monthly Income Ratio	Total	1st	2nd	3rd	4th	5th
PAKISTAN	79	83	82	80	78	74
PAKISTAN URBAN	74	78	78	77	76	73
PAKISTAN RURAL	83	84	84	83	82	82
PUNJAB	80	83	83	81	80	78
PUNJAB URBAN	76	79	78	77	77	76
PUNJAB RURAL	83	84	84	83	83	83
SINDH	75	84	83	80	76	68
SINDH URBAN	70	78	78	76	73	66
SINDH RURAL	85	85	86	86	85	84
KPK	80	82	81	80	80	78
KP URBAN	78	80	80	79	78	77
KP RURAL	80	82	82	81	80	78
BALOCHISTAN	79	83	81	78	77	77
BALOCHISTAN URBAN	76	76	78	75	73	77
BALOCHISTAN RURAL	81	84	82	79	81	78

Source: HBFC Research, Pbs, Zameen.com

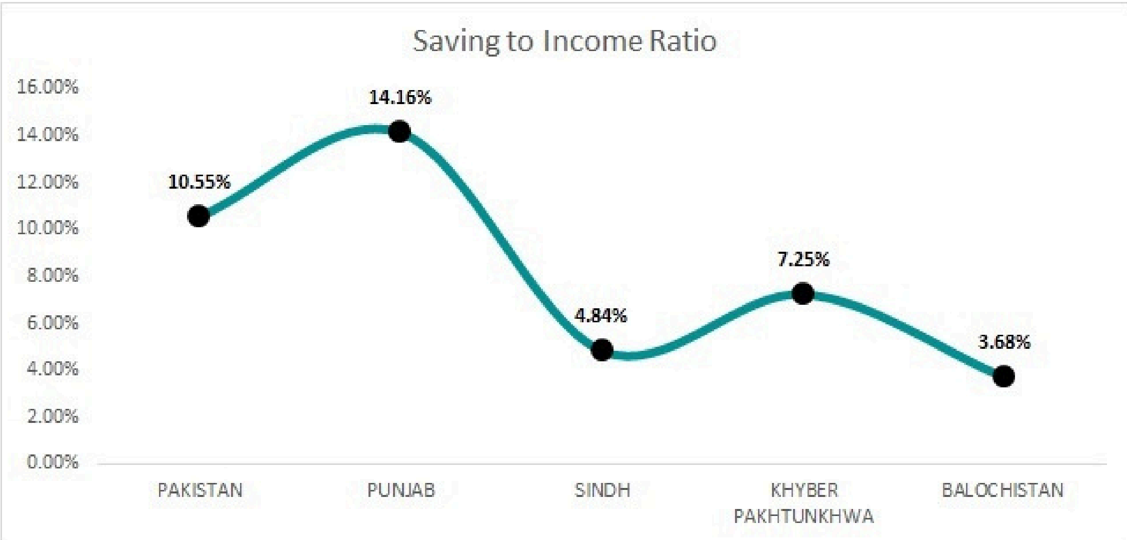
MEASURING PAKISTAN'S FINANCIAL HEALTH THROUGH SAVINGS

Critical for assessing household financial resilience, the Saving to Income Ratio offers a window into nation's wealth-building capacity. Calculated as yearly savings divided by annual income, this metric reveals how families prepare for future expenses and economic shocks.

Nationally, the Saving to Income Ratio averages 10.5%, but this figure masks dramatic regional disparities. Punjab leads at 14.16%, benefiting from higher dual-income households, while Sindh (4.84%) and Balochistan (3.68%) show concerning negative savings among lower-income groups. This saving capacity directly affects housing accessibility, particularly given mandatory down payment requirements. Infrastructure development costs in different regions significantly influence household saving potential. KPK presents a middle ground at 7.25%. Intriguingly, a U-shaped saving pattern emerges across income levels, with both lowest and highest quintiles often outperforming middle-income groups.

ADDRESSING SAVINGS DISPARITIES CRITICAL FOR PAKISTAN'S ECONOMY

Saving to Income Ratios reveal significant regional and income-based disparities. High saving rates in Punjab contrast with negative rates among lower-income groups in Sindh and Balochistan, while a U-shaped saving pattern nationally warrants investigation into middle-class pressures. To foster economic development and stability, policymakers must address these disparities through targeted, region-specific approaches such as financial literacy programs, incentivized saving schemes for lower-income groups, and policies to alleviate cost of living issues. By promoting a savings culture across society, the nation can enhance financial resilience, reduce inequality, and achieve sustainable growth. Addressing saving disparities is pivotal to the country's economic future.



Source: HBFC Research, Pbs, Zameen.com

Saving to Income Ratio	Total	1st	2nd	3rd	4th	5th
PAKISTAN	11%	6%	7%	3%	3%	8%
PUNJAB	14%	11%	15%	10%	11%	17%
SINDH	5%	-5%	0%	2%	3%	10%
KHYBER PAKHTUNKHWA	7%	7%	8%	5%	4%	12%
BALOCHISTAN	4%	-2%	-4%	-4%	7%	23%

Source: HBFC Research, Pbs, Zameen.com

ENSURING HOUSING AFFORDABILITY ACROSS PAKISTAN

The 2023 Census exposes critical national affordable housing challenges, with only 67.5% of 38.29 million households residing in permanent structures and a stark 32.5 percentage point urban-rural divide. The country grapples with an estimated annual housing deficit of 0.4 million units and a daunting backlog of 10 million units. This crisis reflects significant regional and socio-economic disparities, particularly evident in provinces like Sindh and Balochistan, while Punjab demonstrates relatively better affordability across urban and rural areas.

The construction sector, contributing over 2.5% to GDP with high economic multipliers (2.29 backward and 1.80 forward linkages), is crucial for addressing this crisis and stimulating overall economic growth. Its influence extends across multiple industries, doubling demand for raw materials and boosting related sectors by 80%. Lower-income groups spend disproportionately on living expenses, further entrenching socio-economic inequalities and hampering social mobility.

A comprehensive, multi-pronged approach is essential to tackle these challenges: expanding affordable housing supply through innovative public-private partnerships, reforming the mortgage market to increase accessibility, and implementing targeted income-boosting initiatives in rural areas. Introducing income support programs and financial literacy education in vulnerable regions is crucial for improving household financial management and resilience.

By addressing both housing affordability and broader economic inequalities, the nation can promote equitable development, reduce poverty, and significantly improve living standards nationwide. Sustainable economic growth hinges on implementing inclusive policies that cater to the diverse needs of the entire population, thereby ensuring long-term prosperity and stability for all citizens across urban and rural areas.

CONTACT DETAILS

If you have any questions, please contact :

HBFC Research Department
e**mail:** research@hbfc.com.pk
phone: +92 21 35641711-15 (Ext: 799)