



# SECTOR BRIEF

## Construction and Real Estate Sector in Pakistan

By ICMA Research and Publications Department

### Historical Background

The construction industry has been vital to Pakistan's economic growth, helping build infrastructure and creating millions of jobs. Its links with industries like cement, steel, and manufacturing make it an important part of the economy. In 1947, Pakistan's construction and real estate sector was in its infancy. The country inherited limited infrastructure, with few roads, buildings, and basic facilities. Urban areas, particularly, faced a severe housing shortage due to the massive influx of refugees following Partition. The government took the lead in building essential infrastructure like housing, offices, and schools.

The private sector was small and mostly unorganized, relying on traditional construction methods. Land ownership was largely feudal, and urban real estate markets were underdeveloped. The focus was on meeting the immediate needs of the new nation, with new urban centers slowly beginning to emerge.

From 1947 upto 1971, there were few private constructors/developers in Pakistan. The public sector housing projects were carried out by the Central and Provincial Works Department through contractors. The private sector construction of houses was done with the help of skilled and unqualified workers.

**1950:** Launch of the first five-year plan, prioritizing roads, railways, and public buildings.

**1952:** House Building Finance Corporation (HBFC) was established as a statutory federal body to provide financial assistance for the construction and purchase of houses. It was corporatized in 2007 and is now an unlisted public limited company.

**1953:** The then Prime Minister Muhammad Ali Bogra initiated the housing scheme including Pakistan Quarters for the refugees who had migrated to Pakistan in 1947 and onwards.

**1957:** Karachi Development Authority (KDA) was established by merging Karachi Improvement Trust and Karachi joint Water Board to develop the Karachi city.

**1960:** Capital Development Authority, Islamabad was established as a regulatory authority to provide municipal services in the Islamabad Capital Territory.

**1962:** Start of the Karakoram Highway project, linking Pakistan with China.

**1972:** Association of Builders and Development (ABAD) was formed as a national level representative organization of builders and developers, to unify and streamline the

construction activities of the private sector. ABAD has over 1,000 leading construction companies as its members.

**1975:** Lahore Development Authority (LDA) was established by the Government with the responsibility for new planned development in Lahore. It was previously known as 'Lahore Improvement Trust'.

**1976:** Establishment of Pakistan Steel Mills in Karachi to support local construction material production.

**1985:** The construction of the Pakistan steel Mill at Karachi was completed by a consortium of Pakistani construction companies under the supervision of Soviet experts.

**1990:** Federal Government Employees Housing Authority (PGEHA) was established to implement self-financing housing schemes on an ownership basis for Federal Government employees.

**1998:** Introduction of the National Housing Policy to address housing shortages and improve urban planning.

**1999:** Pakistan Housing Authority (PHA) was established as a subsidiary of the Ministry of Housing and Works, Government of Pakistan, to provide low-cost housing units to the lower and middle-income groups of Pakistan on an ownership basis. PHA has so far built several housing units for the general public and Federal Government Employees in Federal and Provincial Capitals.

**2001:** A National Housing Policy was announced which focused on resource mobilization, increasing land availability, provision of incentives for homeownership, incentives to developers and constructors, and promotion of research and development activities to make construction cost-effective.

**2013:** Launch of the China-Pakistan Economic Corridor (CPEC), leading to major infrastructure projects.

**2020:** A comprehensive Relief / Stimulus Package for the construction sector was announced by the Government. The construction sector was given the status of Industry. The package also included a subsidy of Rs. 30 billion for the Naya Pakistan Housing Project.

**2021:** Government supports the development of smart cities like Capital Smart City and Lahore Smart City.

**2022:** Implementation of the Real Estate Regulatory Authority (RERA) to improve transparency and regulation in the real estate sector.

**2023:** Launch of the Green Building Guidelines to promote sustainable construction practices and energy efficiency.

## Broad Categories of Construction Sector

The Construction Sector is broadly classified into two main segments or classes of products viz. Buildings and Civil Works.

**Buildings** are associated with the construction of houses, offices, hospitals, factories, etc. - both for residential and commercial purposes. This category includes industrial construction such as manufacturing plants, refineries, chemical processing, mining, and offshore construction. Typically, buildings tend to account for around 70 percent of the construction market in both developing and developed countries.

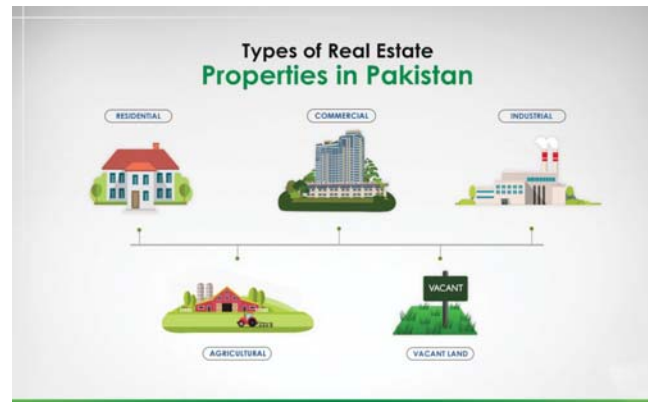
**Civil Works** involve the development of public infrastructure such as dams, bridges, barrages, highways, railways, irrigation, power generation, transport, etc. These are mostly undertaken and funded by the Government and implemented through different contractors.

## Objectives of Builders, Developers, and Contractors

The sole objective of a 'Builder' is the construction of buildings and their disposal.

The sole objective of a 'Developer' is the development of the land of any kind either for itself or otherwise.

The sole objective of a 'Contractor' is the management of any construction project by employing workers, including sub-contractors.



## Role of Pakistan Engineering Council (PEC)

The Pakistan Engineering Council (PEC) was established on January 10, 1976, to regulate engineering professions and education in Pakistan. Its key responsibilities include registering engineers, consulting engineers, and construction firms, as well as accrediting engineering programs offered by universities. PEC also manages ongoing professional development, advises the Federal Government, and sets standards for engineering products and services. To start any engineering business or public works, obtaining a PEC license is mandatory, applying to both local and foreign companies. Without this license, government contractors cannot qualify for engineering work requiring PEC registration.

## Overview of Construction & Real Estate Sector in Pakistan

Metric	Value
Construction Sector Contribution to GDP	2.53%
Average Contribution to GDP (Last 5 Years)	2.3% - 2.85%
Employment in Construction Sector	7.61% of labor force (9.5% of total employment)
Number of Workers in Construction	Approximately 6.8 million
Informal Sector Employment	19%
Industry Links	Over 200 sectors, impacts 70% of unskilled labor
Growth Rate	5.86% (up from -9.25% last year)
Real Estate Market Value (2024)	\$2.11 trillion
CAGR (2024-2028)	7.04%
Annual Property Price Growth	5%
SBP Policy Rate Projection	Expected to fall by 16%
Real Estate Breakdown (2024):	
- Residential	\$1.28 trillion
- Commercial	\$0.61 trillion
- Agricultural	1,148 lands available
Market Worth	\$32 billion
Employment in Construction	7.61% of workforce
Architect Ratio	0.03% per thousand people
Remittances (FY24)	\$30.3 billion (up 10.7%)
Co-Working Spaces	449
GFCF Increase (FY 2024)	13%
China-Pakistan Economic Corridor (CPEC)	Boosted construction through infrastructure projects

### Measuring GFCF: Real Estate Investment Insights

(Rs in million)

Sr.	Fiscal Year	Public Sector	Private Sector
1	2023-2024	Rs. 30,145	Rs. 41,357
2	2022-2023	Rs. 40,323	Rs. 36,644
3	2021-2022	Rs. 36,120	Rs. 59,687
4	2020-2021	Rs. 9,775	Rs. 40,935
5	2019-2020	Rs. 4,156	Rs. 46,805

### Impact of Budget 2024-25 on Construction and Real Estate Sector in Pakistan

- ✓ Capital Gain Tax of 15% has been imposed after July 1, 2024.
- ✓ Profit tax rates are set at 10% for construction and sale of buildings, 15% for development and sale of plots, and 12% for combined income from both activities.
- ✓ The FED on immovable property is 3% for active taxpayers, 5% for those who missed the tax return deadline, and 7% for non-active taxpayers
- ✓ Advance tax on property purchase is 3-4% for filers, 6-8% for late-filers, and 12-20% for non-filers on property sale, it's 3-5% for filers, 6-8% for late-filers, and 10% for non-filers.

## SWOT Analysis

### of Construction and Real Estate Sector in Pakistan

#### STRENGTHS

- ◆ Vital pillar of the national economy
- ◆ Provides essential housing for growing urban population.
- ◆ Generates revenue through taxes and fees.
- ◆ Government housing schemes and incentives.
- ◆ CPEC projects boosting infrastructure development.
- ◆ Young, growing workforce.
- ◆ Expanding middle class driving housing demand.
- ◆ Increasing foreign investment interest.
- ◆ Strategic location connecting Asia and the Middle East.
- ◆ Strong cultural preference for property ownership.
- ◆ Development of mega projects and smart cities.
- ◆ Real estate as a popular investment avenue.



#### WEAKNESSES

- ◆ Imbalance between housing demand and supply.
- ◆ Poor planning and prevalent malpractice.
- ◆ Large undocumented market with untaxed wealth.
- ◆ Lack of regulatory oversight and transparency.
- ◆ High construction costs due to inflation.
- ◆ Limited access to affordable financing.
- ◆ Poor quality control in construction.
- ◆ Bureaucratic hurdles slowing project approvals.
- ◆ Land acquisition challenges and disputes.
- ◆ Limited adoption of modern construction technologies.
- ◆ Environmental concerns with rapid development.
- ◆ Unskilled labor in advanced construction techniques.
- ◆ Dependence on imported materials.



#### OPPORTUNITIES

- ◆ Rising demand for affordable housing.
- ◆ Growth potential in smart cities and eco-friendly projects.
- ◆ Expanding FDI due to government policies.
- ◆ Development of tourism-related real estate.
- ◆ Increased urbanization in secondary cities.
- ◆ Digitalization and tech integration in construction.
- ◆ Growth in real estate technology platforms.
- ◆ Potential in mixed-use developments.
- ◆ Upgradation of old urban infrastructure.
- ◆ Government push for housing finance solutions.
- ◆ Explore high-rise and vertical development.
- ◆ Use Public-Private Partnerships (PPPs).



#### THREATS

- ◆ Non-transparent property registration.
- ◆ Political uncertainty impacting project continuity.
- ◆ Environmental regulations increasing costs.
- ◆ Competition from unregulated construction.
- ◆ Land price volatility.
- ◆ Persistent high interest rates and inflation.
- ◆ Limited long-term urban planning.
- ◆ Security concerns in certain regions.
- ◆ Natural disasters affecting construction schedules.
- ◆ Fluctuating exchange rates increasing material costs
- ◆ Mafia systems blocking modernization.
- ◆ Construction quality issues causing safety risks.

