

How long can meteoric

By Noshad Ali

LAHORE: Since September 11, 2001, property prices in Pakistan, particularly Lahore, have soared. The factors include higher remittances from expatriates, a high profit margin, better services attracting more investors, and the low return on savings offered by banks.

But with property prices at an all time high, how long will it be before the bubble bursts?

Property prices have gone up an average 25 percent around Pakistan over the last five years, while plots in some developing areas of Lahore have gone up by up to 300 percent. According to property dealers, the increase is in part due to a massive surge in investment in the property from overseas since September 11.

Zafar Iqbal, a retired major who is chief executive of Makkan, said there were two major reasons for the surge in property prices. "First, there has been an increase in the number of investors speculating on high profits. Second, there are a growing number of overseas customers willing to pay more for property provided they are confident their investment is safe."

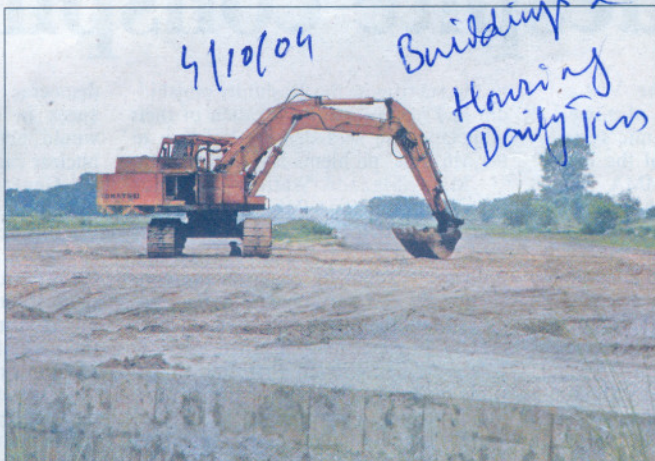
There are several reasons for the increase in remittances from expatriates after the September 11 attacks. Mr Iqbal said many felt their investments abroad to be unsafe. "They started sending their money back home which was invested in real estate because no other business offers the same profit," he said.

"For the last five years, property prices have started rising during the summer vacations and the fifteen days around the two Eids as overseas Pakistanis come home to visit their families and decide to buy plots and homes," said Asrar Amin Agha, the owner of Unity Estates.

And it is not just overseas Pakistanis attracted by the high profits. "Many national and international companies and financial institutions are involved in the real estate business," Mr Agha said.

Mr Iqbal said there had been a previous boom in property prices driven by expatriates when Iraq invaded Kuwait in 1991. A lot of Pakistanis working in Kuwait returned and bought property in housing societies. "Those who invested wisely are selling their plots at enormous profit now. Those who invested in start-up societies without infrastructure, management and town planning lost everything."

Since then, however, real estate has become more professional, with educated, modern and service-oriented estate agents and consultants around to guide people in the purchase of plots, both for investment and for making homes. "The competition for all the money pouring into real estate has introduced a new service concept in the



real estate industry," said Mr Iqbal.

This makes it easier for people with spare money to invest in property. "The wives and children of rich men are investing because it is much easier than starting up a business," Mr Agha said. "The fact that you have educated and professional consultants gives them the confidence to do that. All they have to do is share a cut of the profit, which doesn't cost them much because buying and selling property is tax-free."

Prices have risen fastest in housing schemes with good management and reliable records, such as in Phase V and VI of Defence, controlled by the Defence Housing Authority (DHA), Mr Iqbal said.

"The DHA played a vital role in the property boom because at a time when people were being victimised by the land mafia, the DHA provided money-assurances vis-à-vis services to its residents and investors," he said.

Though Defence is in Eastern Lahore and close to the border with India, that is the direction most of the development is taking place. "This is only because of the trust the DHA has developed. And now that Pakistan-India relations are improving, people are not worried about an invasion. The government signalled as much when it built the new airport there," Mr Iqbal said.

Areas around the new Allama Iqbal International terminal are now becoming hot property.

Sarmad Jan of City Estates, DHA said property prices in Lahore had increased more than in any other city. Karachi's property market had been volatile because of law and order. Upcountry migration from Karachi and other cities to Lahore and Islamabad had sped up in the last few years and this phenomenon is also upping prices.

A change in residential trends away from the centre of town to the suburbs is also evident. "Rapid commercialisation of the city's residential areas has compelled many to move to the suburbs, where they are relatively free of the noise and pollution," Mr Agha said.

He added that development landmarks were also affecting the market, with the prices of plots in schemes with luxurious facilities

rising faster than where facilities were relatively modest.

But how long will the property boom last and how far is the investment genuine? One of the city's top estate agents warns that a large part of investment is with the purpose of money laundering and artificial shortage of plot files and manipulation of the land mafia is common.

"Real estate is one of the favourite businesses for black-marketers to convert their black money into white. There is little checking and investors are not bound to pay any taxes while buying or selling property," he said.

"Basically, there is a genuine demand which is currently preventing the property bubble to burst, but it will reach saturation point and some genuine buyers will lose a lot of money."

He put the number of genuine buyers of property at not more than 15 percent, with the rest only in it for profit or other more nefarious purposes.

Mr Agha, however, disagrees with the concept of a bubble. He said when demand starts decreasing, prices would automatically reach their actual level and then stabilise. He said the prices of property in the developed areas of Lahore, such as Gulberg and Model Town, were not increasing as in developing areas. He said there is a shortage of 5.4 million houses in the country and the backlog is swelling. Mr Iqbal said property prices were increasing worldwide, not just in Pakistan, as the population grows and land becomes a scarce resource.

"Property prices are increasing worldwide but not at the speed with which they are in Pakistan," said Mr Jan. "Buying power here has improved, especially in the presence of low interest rates, and with the huge liquidity it is natural that real prices are on the rise, but the level of current prices is unnatural or manipulated."

"In Pakistan, we love to make easy money and become rich overnight, whatever the risk involved. This approach creates artificial hikes, and these days it is happening in the property business. There are manipulators continu-

ic rise of property prices last?

Commercial Plots

Major areas and societies in Lahore	Rates on the eve of September 11, 2001 (Million Rs per kanal)	Current prices of commercial plots (Million Rs per kanal)
Park View	Rs 0.7m to Rs 0.8m	Rs 4.5m to Rs 6m
Central Park	Rs 0.5m (Nov 2003)	Rs 0.6m
Air Avenue	--	Rs 4.5m to Rs 6.2m
Bahria Town	--	Rs 2.5m to Rs 3m
Canal View	Rs 3.5m to Rs 4m	Rs 8m to Rs 9m
West Wood Colony	Rs 1.2m to Rs 1.5m	Rs 6m to Rs 7m
Johar Town	Rs 5m to Rs 7.5m	Rs 15m
Township	Rs 10m	Rs 15m to Rs 20m
Faisal Town	Rs 15m to Rs 20m	Rs 30m
Model Town	Rs 1.5m (4 marlas)	Rs 2m to Rs 6m (4 marlas)
Garden Town	Rs 8m to Rs 10m	Rs 40m to Rs 50m
New Muslim Town	Rs 7m to Rs 8.5m	Rs 25m to Rs 30m
Shadman	Rs 9m to Rs 10m	Rs 30m to Rs 45m
GOR	No commercial plots	--
Gulberg (main areas)	Rs 10m to Rs 25m	Rs 60m
Valencia	--	Rs 5.5m (4 marlas)
WAPDA Town	--	Rs 10m (8 marlas)
Izmeer	--	Rs 5.5m (4 marlas)
EME	--	Rs 5.5m
Sui Gas	--	Rs 3.2m to Rs 4m
Army Welfare Trust	--	Rs 1.1m to Rs 1.5m
Chinar Bagh	--	Rs 0.5m to Rs 0.8m
State Life	--	Rs 2m to Rs 2.7m
Cavalry ground	Rs 5m to Rs 6m	Rs 18m to Rs 2m
Lahore Cantt	No commercial plots	--
Defence Housing Authority		8-marla plots
Phase I	Rs 10m to Rs 15m	Rs 25m to Rs 70m
Phase II	Rs 10m to Rs 15m	Rs 25m to Rs 70m
Phase III	Rs 13m to Rs 14m	Rs 55m to Rs 80m
Phase IV	Rs 18.5m to Rs 20m	Rs 65m to Rs 80m
Phase V	Rs 6.5m to Rs 7m	Rs 10m to Rs 25m

Residential Plots

Major areas and housing societies in Lahore	Rates on the eve of September 11, 2001 (Million Rs per kanal)	Current prices of residential plots (Million Rs per kanal)
Park View	0.7m to Rs 0.8m	Rs 4.5m to Rs 6m
Central Park	Rs 0.4m (Nov 2003)	Rs 0.6m
Air Avenue	--	Rs 4.5m to Rs 6.2m
Bahria Town	--	Rs 2.5m to Rs 3m
Canal View	Rs 1.8m to Rs 2m	Rs 7.5m to Rs 8m
West Wood Colony	Rs 1.2m to Rs 1.5m	Rs 6m to Rs 7m
Johar Town	Rs 2.5m to Rs 5m	Rs 6.5m to Rs 15m
Township	Rs 1m to Rs 1.5m	Rs 4m to Rs 5m
Faisal Town	Rs 2.5m to Rs 3m	Rs 8m
Model Town	Rs 3m to Rs 3.5m	Rs 9.0m to Rs 9.5m
Garden Town	Rs 4m to Rs 4.5m	Rs 12.5m
New Muslim Town	Rs 4m to Rs 4.5m	Rs 10m to Rs 15m
Shadman	Rs 6m to Rs 7m	Rs 20m to Rs 30m
GOR	Rs 7.5m to Rs 8m	Rs 15m
Gulberg (main areas)	Rs 2.5m to Rs 4m	Rs 8m to Rs 15m
Valencia	Rs 0.8m to Rs 1m	Rs 2.2m to Rs 3.5m
WAPDA Town	Rs 1.5m to Rs 2m	Rs 5m to Rs 7m
Izmeer	Rs 1.2m to Rs 1.5m	Rs 2.5m to Rs 3.5m
EME	Rs 1.5m to Rs 2m	Rs 3m to Rs 5m
Sui Gas	Rs 0.5m to Rs 0.8m	Rs 3.2m to Rs 4m
Army Welfare Trust	Rs 0.5m to Rs 0.8m	Rs 1.1m to Rs 1.5m
Chinar Bagh	Rs 0.2m to Rs 0.3m	Rs 0.5m to Rs 0.8m
State Life	Rs 0.8m	Rs 2.0m to Rs 2.7m
Cavalry ground	Rs 3.5m to Rs 4m	Rs 10m
Lahore Cantt	Rs 3.5m to Rs 4m	Rs 15m
Defence Housing Authority		
Phase I and II	Rs 3m to Rs 3.5m	Rs 6.5m to Rs 8m
Phase III	Rs 2.9m to Rs 3.5m	Rs 8.5m to Rs 12m
Phase IV	Rs 1.8m to Rs 2m	Rs 8m to Rs 10m
Phase V	Rs 1m to Rs 1.5m	Rs 8m to Rs 8.5m
Phase VI	--	Rs 5.5m to Rs 6.5m

Table showing prices on the eve of 9/11, and what they are today.

ously generating hype in the business and there will ultimately be financial casualties. It is like a pyramid scheme: the last buyer will pay the price."

However, there are measures buyers can take to ensure that if such a bubble burst occurs, they will not lose too much.

All the experts suggested that investors only consult reliable and well-reputed real estate agents or consultants, but to avoid consulting too many. "Just analyse, don't paralyse," one expert said.

It is better to invest in societies where all infrastructure is more or less in place. Avoid "one-man" societies and instead invest in cooperative societies or societies with reputable management.

Always check property documents carefully through lawyers. Before buying a plot, visit it personally and take your consultant along. If you are overseas, send someone trustworthy to do so. "Sometimes, plots only exist in documents," one estate agent warned.

For those investing purely for profit, invest in 'running items', plots that are located in societies in high demand. And to keep risk at a minimum, investors should keep themselves up to date with day-to-day changing market prices.

Suburban areas in Lahore were relatively cheap, which prompted

people to build farmhouses there. The prices of these farmhouses and prices of suburban property in general are also increasing because of the rising demand of land which has trickled down from the increased demand of land in developing societies. However, the trend of building farmhouses in the suburbs of Lahore is declining because of the development of housing societies and of rising land prices.

Last year, we saw major investments taking place in land near Wagah. This year, however, the trend has shifted towards investments in land near Raiwind. There are two reasons for the shift in this trend.

Firstly, investors had exhausted land opportunities near Wagah border, as housing societies had already spread to the edges of the army's operational area and further development could not have been made.

Secondly, land was available near Raiwind Road, which made a safe investment and was actually preferred over land towards the border because it could be developed more easily.

Some investments have taken place in societies towards Kasur, but because of poor infrastructure, this land was never really popular with investors.

Investments have generally been made in the housing societies

surrounding the DHA. These societies have better infrastructure and are expected to develop as the DHA continues to expand.

Investments in developing housing societies towards the Raiwind and Multan roads have largely been made because of the Motorway interchange at Saggian Bridge and the intercity bus depot at Bund road, both of which grant easier access to these areas, making them popular locations to be developed.

Areas like Model Town, Gulberg, GOR, Shadman, New Muslim Town, Faisal Town and Johar Town are now developed. The general trend of land prices in developed societies is that they are high but stable. The prices usually rise or fall in very small percentages, unless these areas are commercialised.

However, a majority of these areas have been commercialised in the last decade, because of which land prices have increased many fold. For example, the price of a one kanal plot in Main Boulevard has increased from Rs 10 million to more than Rs 50 million in just the last five years, ie, an increase of more than 5 times.

However, prices are expected to stabilise once land in Main Boulevard is developed and used commercially.

The commercialisation of city areas, like Gulberg and Model Town that were once considered the suburbs of Lahore, made property an attractive investment for people. Increasing population and migration towards such areas are the primary reasons why Gulberg is now being rapidly commercialised. Thus people tend to invest in areas they expect to be commercialised in the future, which is exactly the trend that we see these days. Property buyers are investing in the suburbs, in areas like Faisal Town, which are slowly but surely developing.

The prices of property in Shahalam Market, Azam Cloth Market, Brandreth Road and commercial areas like The Mall, that were once developing areas, did not increase by the same ratio as that of newly developing areas. Land prices at one time did not increase mainly because land wasn't a liquid asset and there were problems of fraud in the property business. These days, however, the property business is in fact liquid and highly profitable for investors.

The market mechanism for the sale and purchase of flats in residential-cum-commercial plazas is governed by a different set of rules. Rates usually depend on the size and location of the suite, flat, office or shop.