



Built houses as a tool to control residential land speculation - A case study of Bahria Town, Lahore

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ABSTRACT

Lahore City, on its way of becoming a Metropolis, has created serious urban problem of inadequate housing. In response to rapidly increasing housing deficit, the Government has now incorporated private developers. In this regard, Bahria Town has emerged as a big real estate brand causing land speculation. Land, which was used to be a resource, has now become a commodity. This paper investigates emerging trends, in the local real estate market by comparing speculation of residential serviced plots and built houses. In addition to that, it will also dig out respective causes and impacts on the price variances particularly in Bahria Town Lahore. The research presents that providing built houses instead of serviced plots in Bahria Town Lahore has been an effective tool in controlling residential land speculation and, hence, directly cutting down the demand for housing.

1. Introduction

Societies all over the world continue to face severe and continued housing shortage, especially because of the repercussion of commoditization of scarce resource i.e land. A roof over the head is the third basic human need after food and water, yet millions of people long for one. Urbanization is one of the preconditions of development; and, in that context, Pakistan is developing at a rapid pace and generating various problems. Pakistan is currently experiencing a 25.4% increase in urban population fraction per decade (Sikander, 2014). Urban population in Pakistan was last measured at 70,877,513 in 2014. Representing around 38% of the total population, according to the World Bank estimates, more than 50% of the population will be living in urban areas (WDI, 2015). Hence, the housing backlog in Pakistan is rising exponentially. The housing backlog in Pakistan is more than 6 million housing units, and that number is growing by approximately 300,000 housing units every year. This trend is mostly being observed in urban areas (Shehzad, 2009). The Capital Development Authority has asked the private sector to help resolve the growing housing problems in Islamabad (Zafar, 2014). As per the records of Lahore Development Authority, there are around 259 private housing schemes (approved and under process) in Lahore Metropolitan (LDA, 2017). Complete colonization of these housing schemes can contribute significantly to the housing backlog. The infill development on these speculated parcels of

land can result in financial savings on infrastructure and costs of other services and can also help to achieve the national goals of decreasing the housing backlog and housing intensification (Puustinen & Viitanen, 2015). A notable characteristic of housing schemes, whether developed by formal public sector or by private sector, is that many of these are vacant despite of being built long ago (Anjum & Hameed, 2016). It is a common approach worldwide these days to invest in real estate. In his paper on land speculation, Ely wrote that prudent purchase of land is a better investment for the ordinary man than stocks and bonds (2013). Americans also have been speculating heavily on real estate for centuries, and vast fortunes have regularly been made and lost (Glaeser, 2013). The ultimate purpose of land speculation is capital gains in short term (Ho & Kwong, 2002). Land speculation increases the property prices (Xiao & Park, 2010) and encumbers the ability of the poor to acquire land (Begum, 2007; Berrisford et al., 2008). The emerging effect of the rise in price can only be seen in true terms when there is an imbalance between supply and demand of housing (Malpezzi & Wachter, 2005). Housing development in China, has been also been disturbed by income inequality, land speculation, and poor government support for low-income households. Housing prices have become so high that the poor are unable to buy a house, whereas, rich are able to buy as many houses as they want and can even afford to leave them vacant (Yao, Luo, & Wang, 2014). Harrison (1983) in his book "The Power in the Land" proved the pivoted role of land speculation in global

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cycles of recessions and depressions. Mill (1848) British philosopher and economist once quoted about the landowners as;

“They grow richer as it were in their sleep, without working, risking or economizing.”

The phenomenon of land speculation is seen worldwide (Hoyt & Millis, 2000). The frontier area of Latin America has been categorized by land speculation and exploitation (Smith, Cadavid, Rincón, & Vera, 1997). Similarly, in the Chinese Pearl River Delta, economic growth induces a boom in property values which aggravated the speculation of land (Yeh & Li, 1999). According to Baird (2014), there is a need to identify the phenomenon associated with land speculation and the consequences of land speculation. In United States, the unused housing (speculated housing) in the existing housing are the major cause of urban sprawl and this is the reason behind suburbanization (Clawson, 1962). During China's land reforms, soaring land prices triggered the land speculation and became a source of revenue (Du & Peiser, 2014). In Hong Kong, land speculation causes a dynamic property market. The increasing trend in property sales indicates the intricate intertwining of Hong Kong economy with various sectors, like banking, construction, stock exchange (real estate) and transportation. This affluent effect on the economy has been seen for a long period of time (Chui, 2001). In Bangkok, evidence demonstrates that surplus purchase of housing by land speculators results in over-investment by developers corresponding to unsustainable and unrealistic demand levels, thereby, disrupting market equilibrium. Out of 350,000 housing units produced, only one-third of the units were purchased by inhabitants (Pornchokchai & Perera, 2005).

In Pakistan, speculators invest their money in plots because no costs/taxes are levied on vacant plots. It has been examined that in 49% of the housing schemes in Lahore, 50% of the plots are those on which houses have not been constructed; and, 75% of those plots are in the hands of professional speculators (Zaman, 2012). National housing policies have been stressing the need for levying of taxes on vacant, developed plots and the removal of taxes on house constructions (GOP, 2001). Either it has been revealed, that except in Government schemes, there is no regulated time limit for building period, or there is no enforcement of any such rule, if formulated at all. As the result, the allottees do not care about the housing construction and these remain vacant for number of years (Bajwa, Ahmad, & Khan, 2000). A number of techniques have been adopted to provide housing but, in majority of poor cities; land markets do not provide efficient means to build affordable housing. In Bogota the efforts of local government to create a land bank to resolve the issue of housing were unsuccessful (Gilbert, 2009). In 1978 the local Government of Columbia, USA approved the levying of the unprecedented tax up to 70% of the profit gained from residential speculation. This tax was overturned as opponents and supporter deemed it a failure (Wells, 2015). Enforcing administrative measures, such as restricting ownership transfer for a certain period of time after the purchase, can be a way to stop speculation; or taxes can be applied to reduce this phenomenon (Ho & Kwong, 2002). Through research studies, several policy options, such as increasing the transfer fee, fixing the building period and levying taxes on vacant plots, have been devised and proposed to check the dilemma of speculation thus far. According to Zhang and Wang (2016), increasing the interest rate while on the purchase of a plot and strict housing restrictions can help reduce the housing backlog.

“An overwhelming majority of the plots in these schemes is being held by middle and high income groups either for the purpose of speculation or they do not need a house” (Anjum & Hameed, 2016).

Land remains underutilized because revenues can be generated without building on the land. This paper draws attention to policy makers as well as to developers regarding an important question of residential land speculation to be incorporated in any further resource consuming developments, that why, in spite of engulfing vast lands

along with installation of utility services and other infrastructure to stand up a residential community, these have remained unable to cut off the housing backlog? Moreover, the research aims to highlight the so far success of providing built houses in this regard by Bahria Town Lahore.

2. Methodology

Bahria Town, entered the housing market during a time of extreme and increasing housing deficit against a rapidly growing population with the apparent goal of solving the problem. Bahria Town was selected as a case study since it is one of the biggest stakeholder. The way Bahria indirectly, yet directly encourages the use of land as a commodity has made housing a secondary issue. The rate of colonization of Bahria Town Lahore, when compared with that of other housing schemes, which were founded around the same time as Bahria did and in the same area, indicates that Bahria plots were sold out at a much higher pace. Their marketing strategies as well as land use division rules are designed in such a way to attract investors. The company sets their own marketing strategy irrespective of the rest of the land market.

For example, the project of Bahria Enclave Islamabad started in 2011 when the company offered the booking price for a 10 Marla¹ plot to be Rs.30,00,000/- (\$ 28632 USD) against the rate of Rs.60,00,000/- (\$57265 USD) set by Capital Development Authority (CDA) for the same sized plots. This is how Bahria attracted buyers as well as investors. After two years, in 2013, Bahria started another block at 2 km distance from the previous one. The offered booking price for a 10 Marla plot in this new block was set to Rs.60,00,000/- (\$57265 USD). Due to this new set price by Bahria, the price of the previously sold plot of 10 Marla increased by twice of its real purchase price. Also, the development of that previous block further raised its value to Rs.80,00,000/- (\$ 76354 USD). With such a price hike in just two years, a buyer would certainly rather make twice profit selling the land he/she bought. In addition to benefiting the old buyers, Bahria also ensured that the new investors would receive a definite price hike by providing a generous land use requirements and all the facilities that makes marketing even easier.

Also one of the identified reasons of speculation worldwide is the time gap between purchase and complete development, even though Bahria eliminated that reason by providing fully serviced plots. Still, Bahria is observed to be the hub of the speculator market, which is another good argument behind an in-depth study of Bahria Town in order to answer for “Why then?”

The steps involved in carrying out the research include collection of primary data from the field and its detailed analysis to construe useful results. To study all of Bahria Town is certainly, setting an impractical ambition. Hence, the case study approach was adopted, and, for this purpose, four Sectors (A, B, C and D) were selected for serviced plots and they are compared to built houses in Bahria Town Lahore in their project of Safari Villas. The Villas are fully completed, occupied and sold out. It is also very popular in the public.

Bahria Town provides serviced plots as well as built houses of all sizes. For the purpose of this study, plots of size 5 Marla, 8 Marla, 10 Marla and 1 Kanal from Sector A, B, C and D were selected as serviced plots; their comparison was made with the built houses of Safari Villas thereby measuring speculation with its reasons and impacts (See Table 1).

Data was collected through various field surveys to search out the nature and extent of speculation of serviced plots and built houses in case study areas. Questionnaires were designed with the purpose of collecting information from Bahria Town officials and residents of Safari Villas. Moreover, interviews with the real estate agents provided

¹ Marla is the unit of area used in Pakistan [1 Marla = 225 Sq. feet (in case of Lahore Metropolitan area) or 1 Marla = 25.2929 square meters].

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