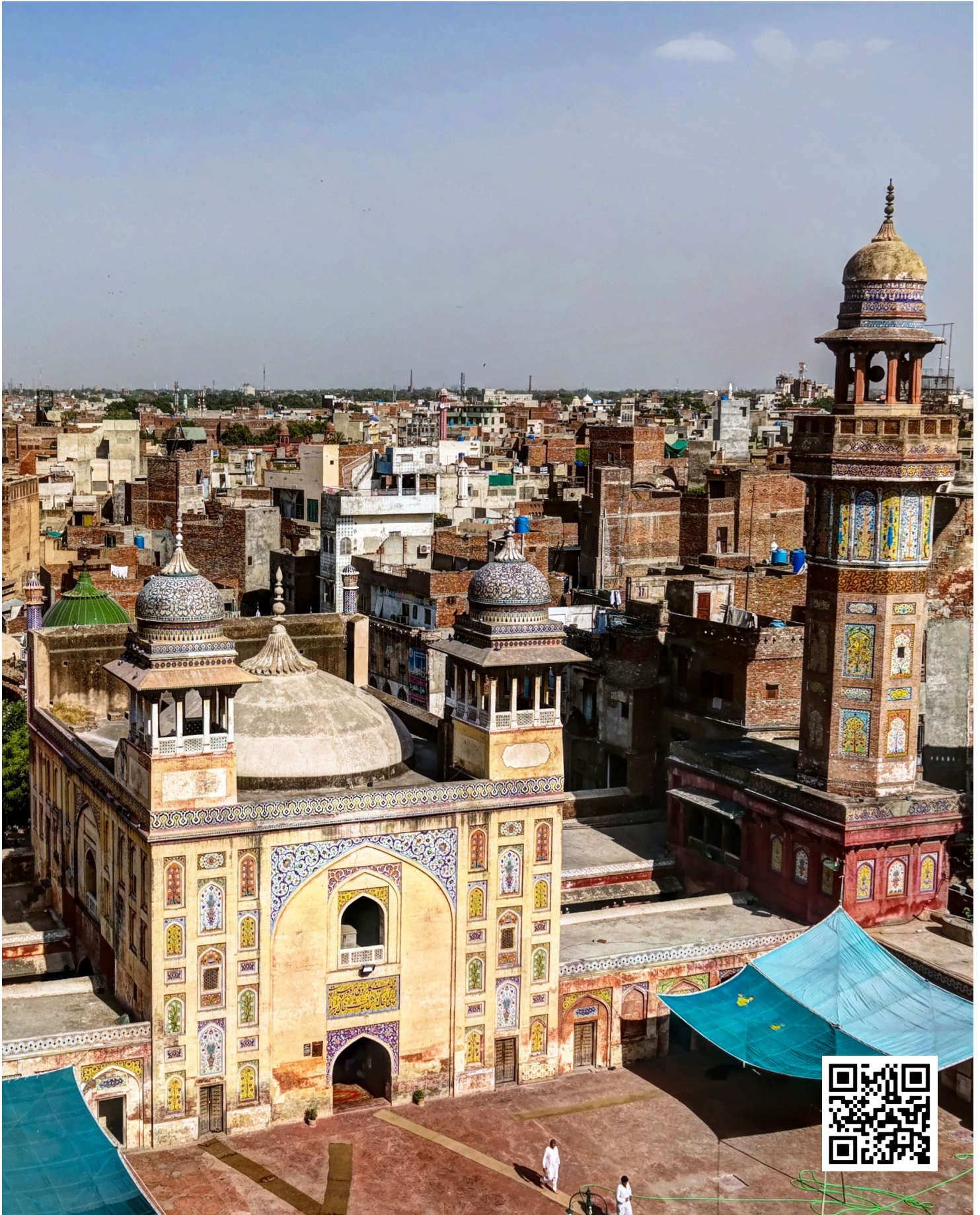
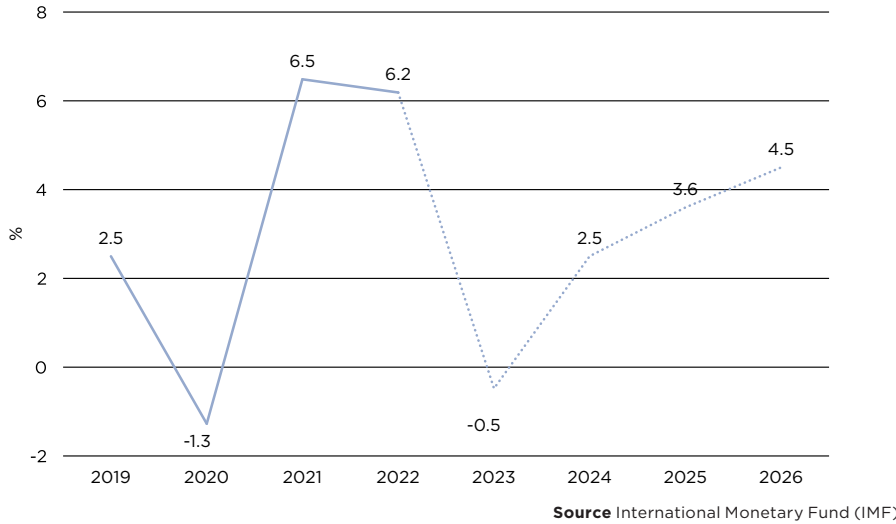


Lahore Residential

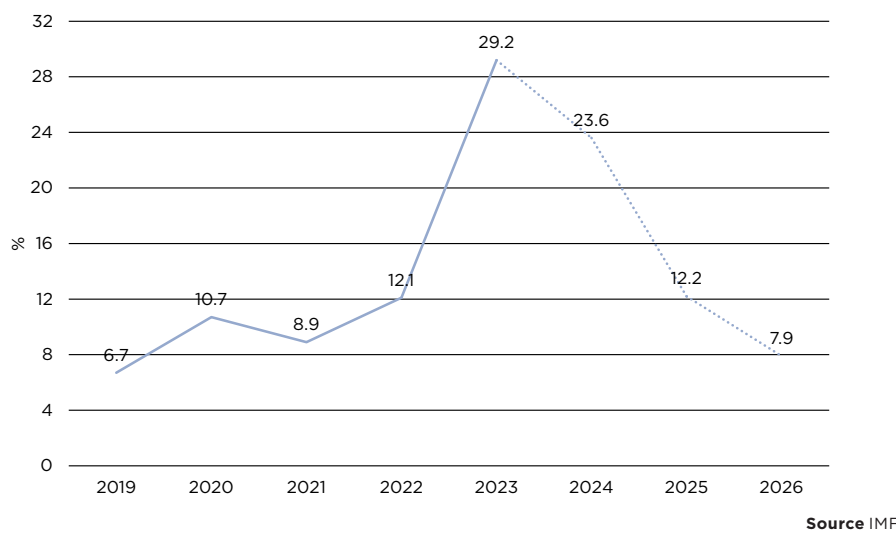


Lahore residential market sees steady growth

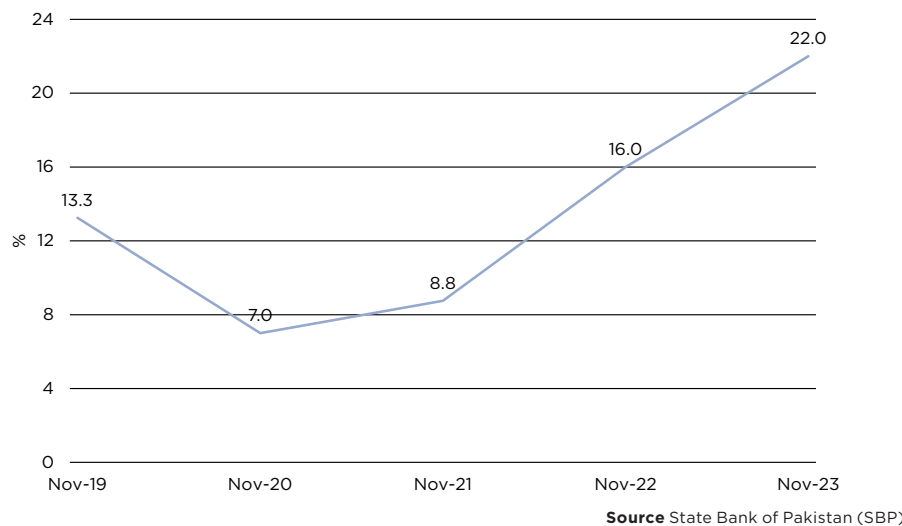
GRAPH 1: Pakistan GDP Growth, 2019 to 2026



GRAPH 2: Pakistan Inflation, 2019 to 2026



GRAPH 3: Pakistan Monetary Policy, November 2019 to November 2023



MACROECONOMIC OVERVIEW

Soaring inflation, sharp currency devaluation, rising unemployment and low inbound-FDI led to a contractionary FY2023. However, Pakistan's economy is rebounding, expecting to achieve 2.5% growth in FY2024, with unemployment projected at 8%, down from 8.5% in FY2023, and inflation projected at 23.6%, down from 29.2% in FY2023. Increasing interest rates were used to stem inflation, with the rate rising from 7% in July 2021 to 22% as of November 2023.

Foreign debt servicing remains one of Pakistan's major issues with US\$23 billion alone due in FY 2024. The IMF Stand By Arrangement (SBA) with Pakistan brings welcome respite and the opportunity to unlock foreign funding. The 9-month US\$3 billion SBA was signed in July 2023. Of the US\$3 billion, US\$1.2 billion has been disbursed with another US\$700 million expected for disbursement soon on account of Pakistan meeting its targets. This is critical funding needed to further stabilize the economy.

CITY PROFILE

Lahore has overtaken Karachi as the most populous city in Pakistan, with ~22 million people in its administrative division. According to the 2023 digital census, Lahore's population growth rate was 2.72%, against the national 2.55%. This is due to Lahore's strong urbanization with people from across the country moving to the city and bringing their wealth with them, which filters into residential real estate. As the capital of the Punjab province, Lahore's human development index and literacy rates are above the national average, making it one of the most prosperous parts of the country. Lahore had a workforce of ~3.59 million as of 2021, which creates a growing demand for real estate as labor from across Pakistan moves to the city for employment opportunities. Lahore is also the cultural capital of Pakistan, making it a prime location for local and international tourism.

MARKET OVERVIEW

Historically, apartment developments began as far back as 2013 in the affluent Gulberg area. This was due to its central location, access to the airport and highways, and it being the white-collar office hub. Gulberg also had key differentiating attributes such as access to hospitals, educational institutions, malls, eateries, and banks. Due to the limited space available in Gulberg, prices have been driven up and congestion

has increased. Buyers have therefore turned to Defence Housing Authority (DHA) which has been developed as another residential and commercial hub for high-income segments.

Though bungalow living has always been the norm in Pakistan, people have gradually developed a preference for apartments, as they provide centrally located accommodation with quality finishing and amenities, securitized parking, and require less management. They are also largely developed on inner roads, reducing congestion, and increasing accessibility. Given the continual land price increases and the finite land available in such locations, bungalow living has become very expensive. Furthermore, apartments remove many of the hassles of bungalow living. Managing utilities (water, electricity, and gas in particular) is a time consuming and frustrating experience due to outages and poor customer support from authorities. Security is another major concern, as bungalows are more exposed to theft, with many residents hiring third-party security. These issues are significantly curtailed in apartments as utilities and securities are generally managed by the apartment building.

A major bottleneck for apartment growth has been financing. Interest rates have spiked from 7% in July 2021 to 22% in November 2023, which has substantially impacted not only the cost of housing finance but overall consumer lending which can be indirectly funneled into real estate. A typical project payment plan is three to four years with a downpayment of 30%.

Despite strong ongoing macroeconomic headwinds, Lahore’s residential market has grown steadily on the back of strong population growth, rural to urban migration, and interest from both owner occupiers and investors, resulting in steady demand for centrally located developments with high quality finishing and amenities.

High interest rates have reduced demand, which has led some developers to be more flexible with either reduced downpayments and longer payment plans, or with the restructuring of existing payment plans.

SUPPLY Existing Supply

As of 2H/2023, Lahore is expected to have 1,447 Grade A and B apartments with a major concentration in Gulberg and DHA. Total supply has increased from 250 units in 2018 to 1,447 in 2023 at a 5-year CAGR of 42% which shows strong growth. 2023 has seen three new projects bringing on 578 units.

Of the existing 1,447 units, 50% are Grade A. Grade A developments have an average gross sale price per square foot of US\$109.65, with a range from US\$92 to US\$133. Grade B developments have an average gross sale price per square foot of US\$82, with a range from US\$50 to US\$110, which illustrates that the Lahore Market is willing to pay a premium of over 25% for quality finishing and amenities.

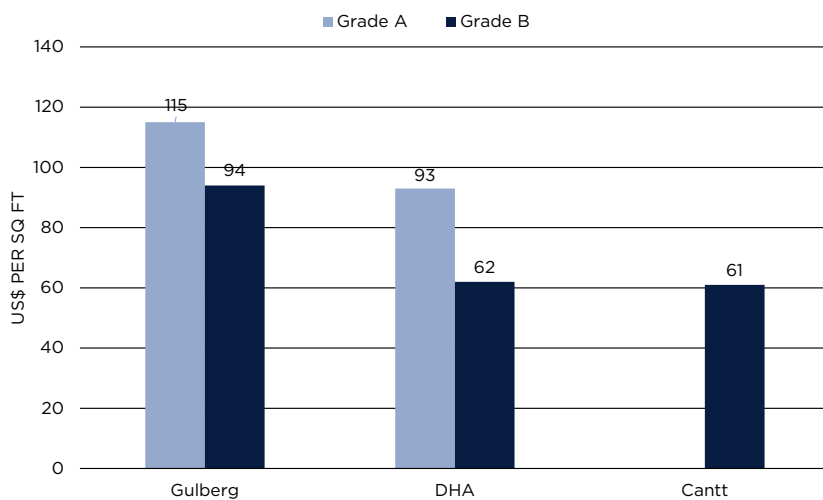
Upcoming Supply

As of 2H/2023, Lahore has an upcoming supply of 2,818 Grade A and B apartments thereby increasing total supply from 1,447 units in 2023 to 4,265 in 2028 at a 5-year CAGR of 24%.

Of these 2,818 units, 12% are Grade A and have an average gross sale price per square foot of US\$145 with a range from US\$103 to US\$210. This is compared to Grade B developments with an average gross sale price per square foot of US\$102 with a range from US\$57 to US\$133, which illustrates that the Lahore Market will be willing pay a premium of over 30% for quality finishing and amenities.

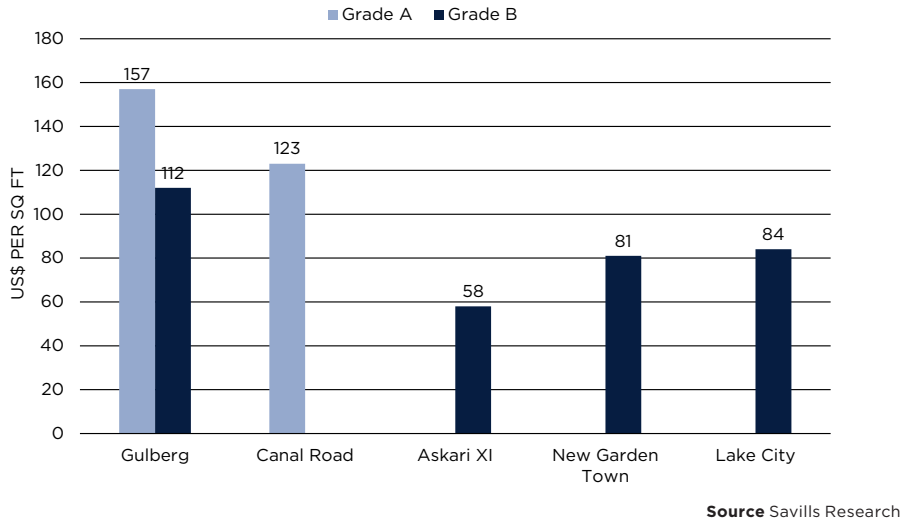
There is a significant gross sale price per square foot differential between Grade A existing (US\$109) and upcoming (US\$145) developments. This can be largely attributed to construction costs which have seen a sharp increase in the last year. Grade A buildings will go for state-of-the-art fixtures, fittings and finishings which are largely imported. Given Pakistan’s depreciating Pakistani Rupee (PKR), imports have continued to increase in price, costs which are then passed on to the buyer.

GRAPH 4: Grade and Location Wise Average Price of Existing Supply - Lahore, 2H/2023



Source Savills Research

GRAPH 5: Grade and Location Wise Average Price of Future Supply - Lahore, 2H/2023



EXISTING DEMAND

Total upcoming inventory in the next five years is 2,818 units, which is almost double the existing inventory, showing strong demand. Of those 2,818 units, 1,060 have been sold even though most of them have only been launched in either 2022 or 2023, which are strong sales numbers in the early stages of the development cycle,

Demand is coming from both owner occupiers and investors. For owner

occupiers, centrally located areas will provide them with ease of access around the city. The quality amenities provided will also attract people away from bungalows towards this lifestyle. For investors, Gulberg has finite land, coupled with increased population and urbanization, which will create a demand supply dynamic which will continue to drive up prices. Considering Lahore is a catchment area for investments from across Punjab, many investors living

outside Lahore would prefer such options which have future upside.

MARKET OUTLOOK

The overall outlook remains positive on account of increasing inventory and sales of upcoming developments. The rising construction costs on account of increased import costs due to the depreciating PKR has certainly curtailed this growth, however the increasing population, urbanization and prosperity brought to Lahore from outside the city should continue to create demand for residential developments in central locations with quality finishes and amenities. Given the dearth of available land in Gulberg, prices in the area should continue to rise, with developers moving to alternative areas to take advantage of lower land prices.

Apartment living will continue to rise in popularity with a larger population and greater congestion within the city. Buyers are developing a preference for centrally located accommodation with quality finishes and amenities and are gravitating to this lifestyle. This, along with continual land price increases will make apartments in areas like Gulberg a long-term investment given the finite supply and the increasing demand from across Pakistan.



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