



# Real Estate

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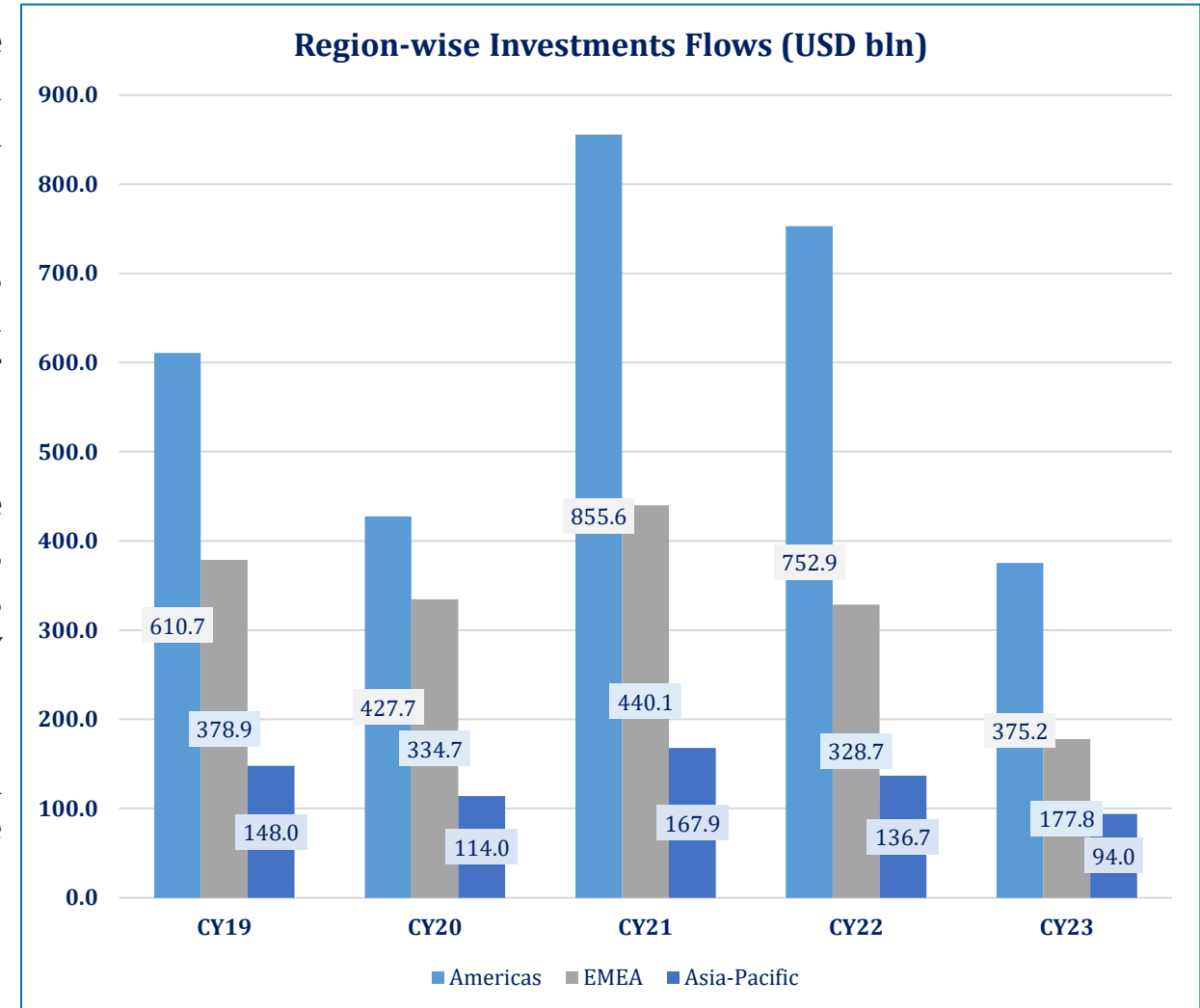
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# Real Estate

## Global | Overview

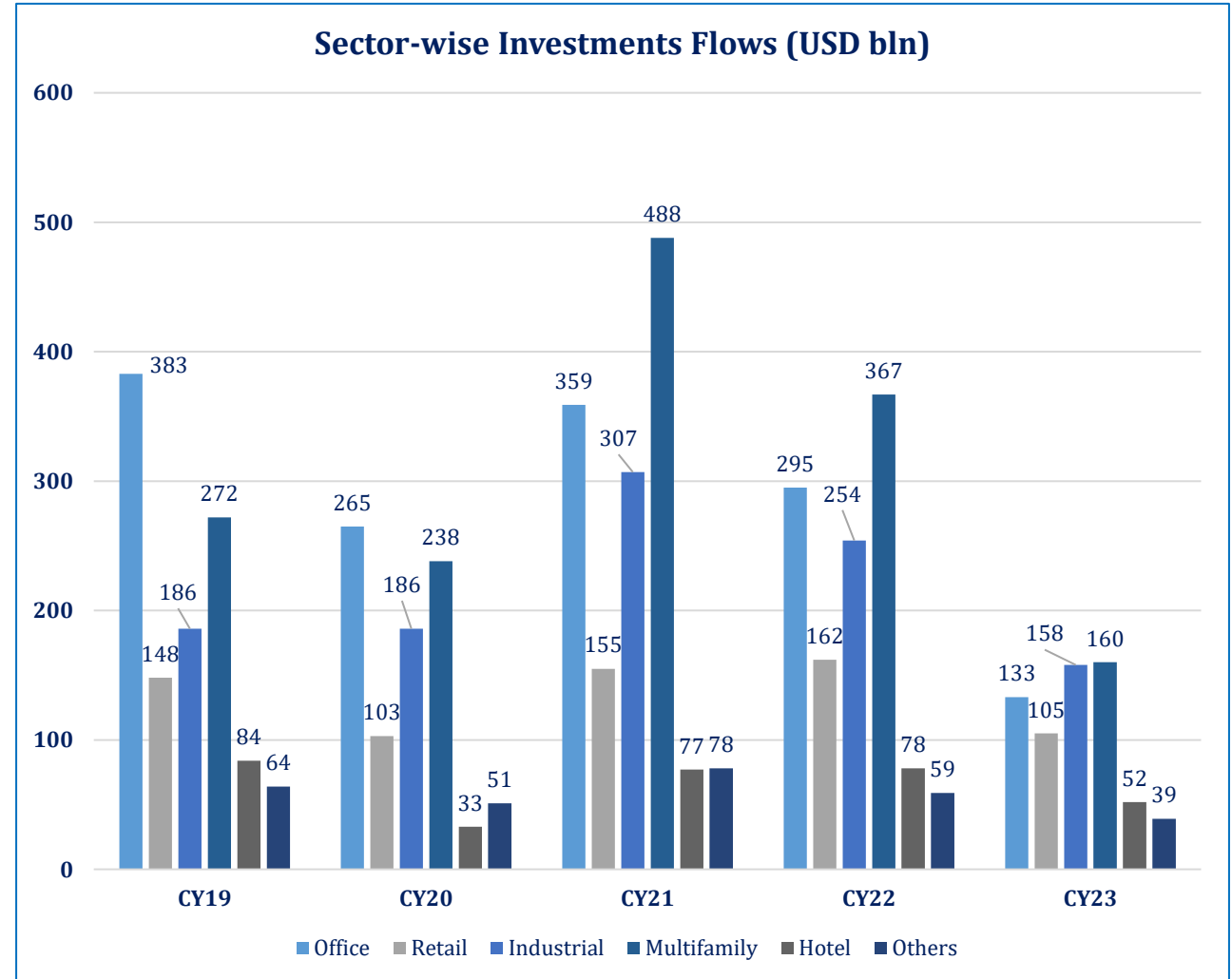
- In CY23, global commercial real estate investment value (office buildings, hospitals, hotels, malls, retail stores, warehouses, and garages), declined by ~43.2% YoY to 10-year low of USD~646bln (CY22: USD~1,218bln).
- Region-wise, investments fell by ~42.0% YoY in the Americas, ~24.4% YoY in Europe and ~37.1% YoY in Asia-Pacific. Global investments were weighed down by higher financing costs, lower availability of financing and valuation uncertainty.
- In furtherance, mortgage rates in the USA (30 and 15-year), rose sharply in CY22 and CY23 (average 30-year rate - CY22: ~5.3%, CY23: ~6.8%; average 15-year rate - CY22: ~4.5%, CY23:~6.1%), owing to higher inflation & interest rates which served to adversely impact demand.
- Additionally, China's construction sector has witnessed a sluggish growth and is expected to continue the same with a moderate growth in CY24, keeping investments in the Asia-Pacific region low.



# Real Estate

## Global | Overview

- The sector majorly comprises four segments: office, multifamily (or residential), hotel, and retail. The shares of residential, office, retail, hotels and others in total global investments stood ~24%, ~21%, ~16%, ~8%, and ~6% in CY23, respectively.
- Total investment across all property segments fell ~46.7% YoY in CY23. Industrial property investments were down ~37.8% YoY and recorded at USD~158bn (SPLY: up ~65.1% YoY), while hotels registered ~33.3% YoY decline (SPLY: ~1.0% increase YoY) to USD~52bn.
- Office segment investments were down ~54.9% YoY, reaching ten-year low of USD~133bn, signaling mass adoption of hybrid work, accelerated out-of-city migration and lower shopping in office-heavy areas.
- While demand for office space is forecast to decline ~13.0% by CY30 compared against FY20, that for residential space in core centers is likely to remain higher, with population growth levels returning to pre-pandemic era.



## Global | Outlook

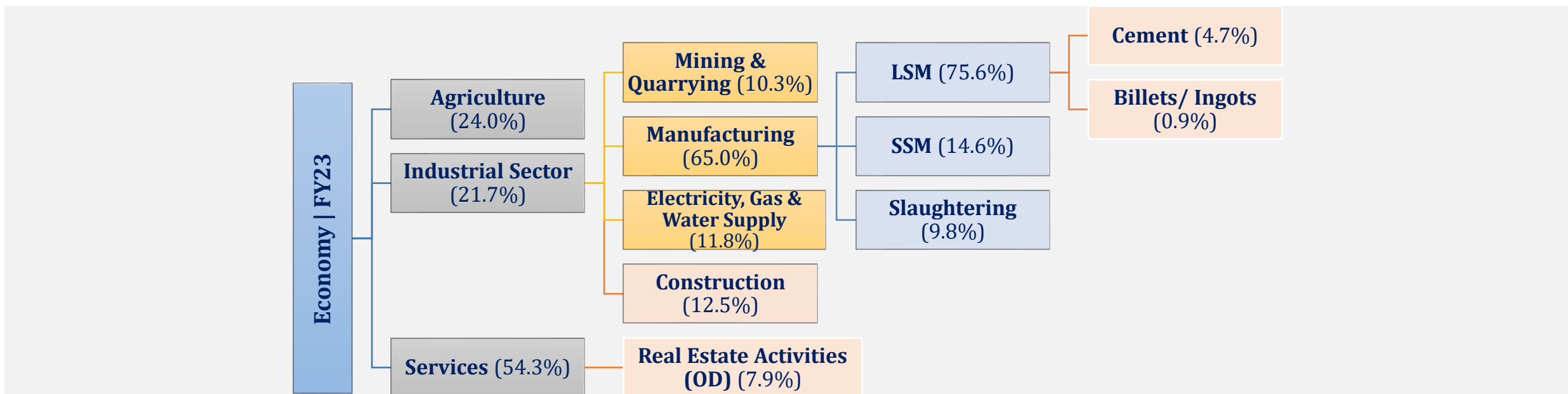
- China:** Prior to CY23, the Real Estate Sector contributed ~30.0% of China's GDP. However, during CY23, high interest rates, a slow economic recovery in mainland China, along with geo-political tension, negatively impacted Asia-Pacific Real Estate sector and resulted in subdued performance of this sector. During CY23, investment in country's commercial real estate sector amounted to RMB~206.3bln (USD~233.0bln), down ~13.0% YoY and were the lowest since CY17. During CY23, other than the hotel and retail sector and Non-Banking Financial Institutions, demand from other sectors remained subdued, explaining the reduction in commercial real estate sector. During CY24, these are forecast to increase to RMB~220.0bln, depicting ~6.8% YoY growth.
- While concerns persist about normalization of growth in Mainland China during CY24, low interest rates and positive investor sentiment amongst the domestic insurance companies is expected to bring about a revival of the real estate sector. Investment opportunities are likely to be observed in office buildings situated in large cities and cyclical investments in retail.
- Asia Pacific (Other than China):** Investment in commercial real estate in Asia Pacific is expected to remain muted in 1HCY24 in line with downward interest rate cycle observed during the same time. Meanwhile, demand in the sector will mainly be led by High Net Worth (HNW) clients, cash-rich investors and corporates seeking investments in high quality real estate/ property. Additionally, an uptick in demand from software houses is also expected.
- USA:** Commercial real estate investment activity is likely to pick up pace in 2HCY24. However, the normalization of hybrid working arrangements (post COVID-19) will continue to limit the growth of office demand in this sector. The demand for the development of a new data center is likely to attract more institutional investment in CY24, as investors are expected to reallocate capital from the office sector to the real estate alternatives.
- Overall, COVID-19 has caused lasting impacts on the working global real estate sector and include, but not limited to, lower office attendance, accelerated migration out of cities and reduced shopping in office heavy neighborhoods. Resultantly, there has been a reduction in demand in for real estate in large cities. Moreover, artificial intelligence (AI), has also taken a lead role in the real estate sector vis-à-vis enhanced operating performance of assets, improve processes and ultimately increased returns to investment.



# Real Estate

## Local | Overview

- In FY23, Pakistan's GDP (nominal) stood at PKR~79.7trn (FY22: PKR~63.3trn), contracting, in real terms, by ~0.17% YoY (FY22: ~6.3% growth). The Service segment held ~53.6% share in GDP during the year. However, the provisional data released by National Accounts reveals that Pakistan's GDP during FY24 is expected to clock in above PKR~100.0trn in nominal terms with expected GDP growth rate in real terms of ~2.4%, depicting an improved economic activity during FY24 compared with SPLY. The SBP estimates GDP growth at ~2-3% for FY24, while IMF's forecast for the same stands at ~2.0%.
- Large Scale Manufacturing (LSM) in Pakistan is essential for the economic growth considering its linkages with other sectors, as it represented ~75.6% value of manufacturing activities in FY23. The LSM fell by ~10.3% in FY23 (FY22: ~11.7%) and further decreased by ~0.10% YoY during 9MFY24. The Real Estate sector is classified under the Services segment of the economy. In FY24, Cement and Long Steel products' weight in the Quantum Index of Manufacturing (QIM) was recorded at ~5.5%. Moreover, these cumulatively experienced a decline in growth of ~6.5% YoY during 9MFY24.



# Real Estate

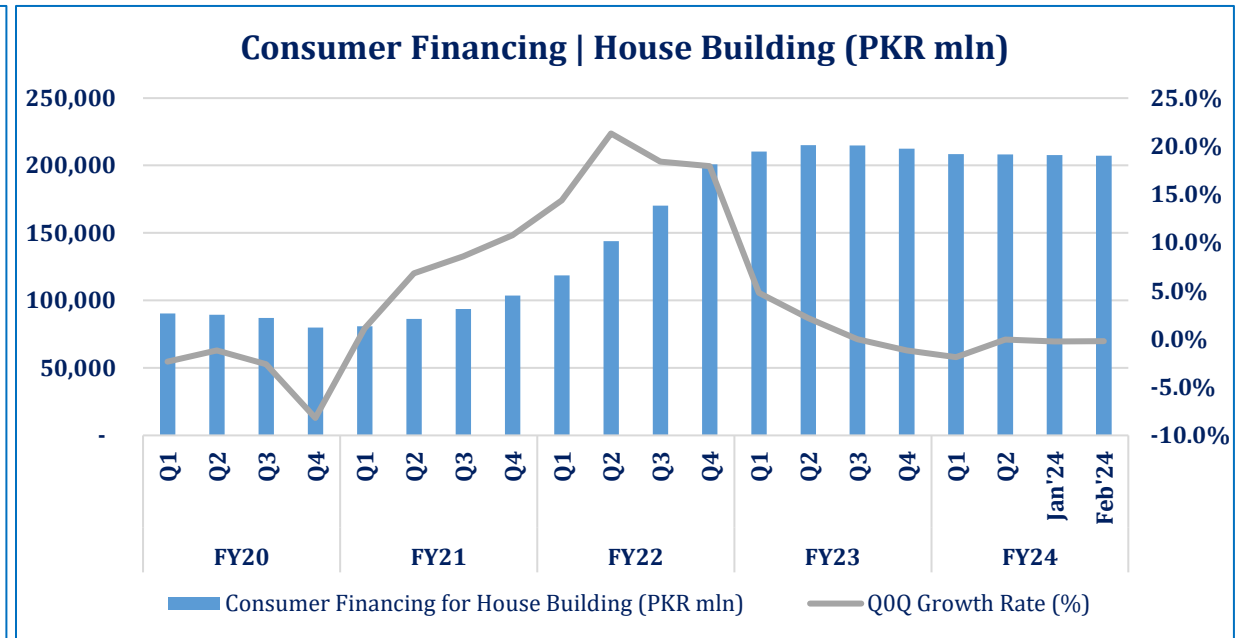
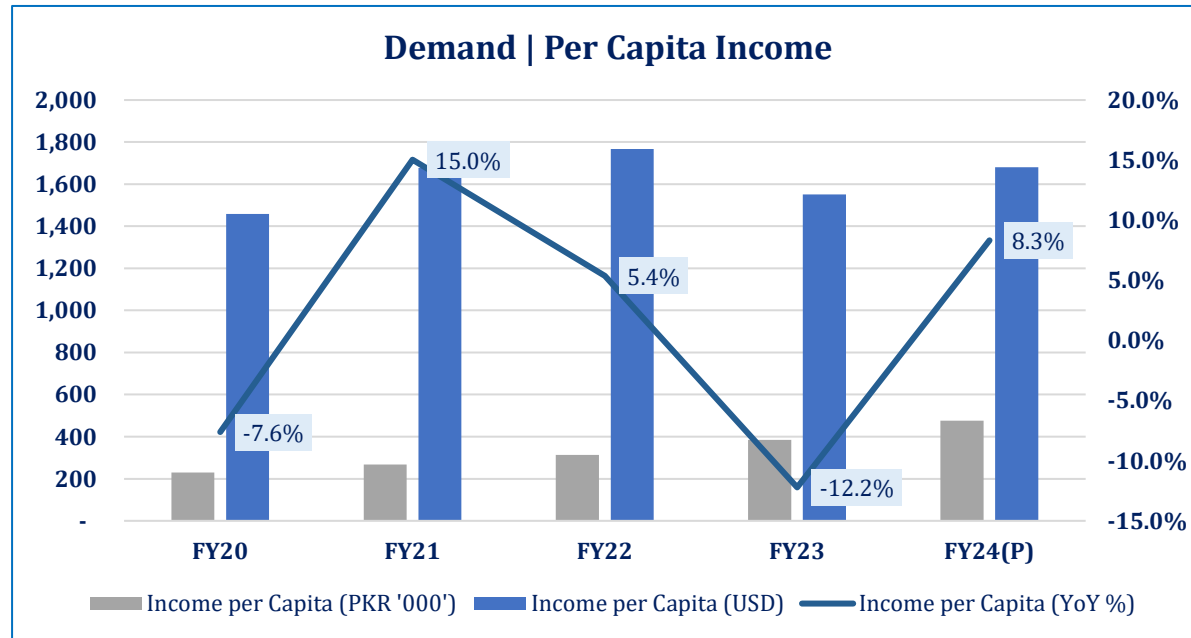
## Local | Overview

- The real estate sector encompasses the buying, selling, development, management, and financing of land, buildings, and properties. It also includes companies offering real estate related services and real estate investment trusts (REITs).
- Pakistan's real estate sector contributed ~2.8% to the national GDP in FY23, with estimated market size recording at PKR~3,364bln in FY23 (FY22: PKR~3,084bln). The sector grew by ~9.1% YoY in FY23. However, growth slowed down to ~6.4% in 9MFY24 (SPLY: ~9.5% YoY) amid declining commercial property prices and increasing interest rates.
- Net FDI towards the sector stood at USD~10.4mln in FY23 (FY22: USD~-6.0), recording ~273.3% increase YoY. For 9MFY24, it increased ~883.3% YoY.
- Foreign developers like Emaar, renowned for the Burj Khalifa, have positively impacted the sector by bringing financial resources, expertise, and global marketing, attracting buyers. ORA Developers' high-end 'Eighteen' project in Islamabad also exemplifies this trend.

Particulars	FY22	FY23	9MFY23	9MFY24
<b>Contribution to GDP   Construction</b>	2.9%	2.8%	2.9%	3.6%
<b>Est. Market Size (PKR bln)   Construction</b>	1,850	2,190	1,676	1,823
<b>Contribution to GDP   Real Estate Activities (OD)</b>	4.9%	4.2%	4.3%	5.2%
<b>Est. Market Size (PKR bln)   Real Estate</b>	3,084	3,364	2,502	2,662
<b>Real Estate Activities (OD)   YoY Growth (%)</b>	9.9%	9.1%	9.5%	6.4%
<b>Net FDI   Real Estate Activities (USD mln)</b>	(6.0)	10.4	3.6	35.4
<b>Population (mln)</b>	227	231		235
<b>Market Structure</b>	Competitive			

## Local | Consumer Financing

- In FY23, per capita income declined to USD~1,551 per capita (FY22: USD~1,767 per capita), a ~12.2% YoY. This reduced purchasing power decreased the overall demand for the housing segment. Income per capita rose to USD~1,680, a ~8.3% YoY increase. Consumer financing (outstanding) rose ~21.3% YoY in 2QFY22 to PKR~143.8bln, indicating increased demand, most likely on the back of aforementioned subsidy schemes. By June'22, PKR ~99.8bln had been disbursed under "Mera Pakistan Mera Ghar," (SPLY: PKR~5.2bln).
- However, consumer financing declined due to suspension of fresh disbursements under the Mera Pakistan Mera Ghar in June'22, amid economic uncertainty, and a slowdown in the transactions of property and construction activities. In 4QFY23, outstanding consumer financing recorded at PKR~212.3bln (4QFY22: PKR~200.7bln).



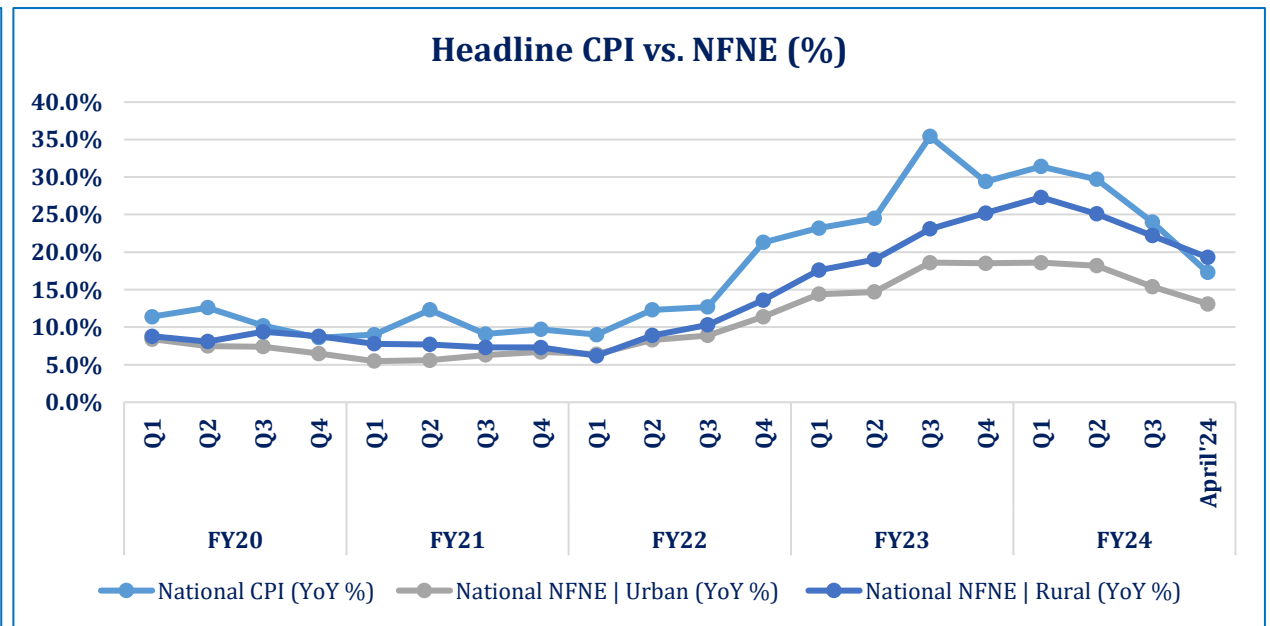
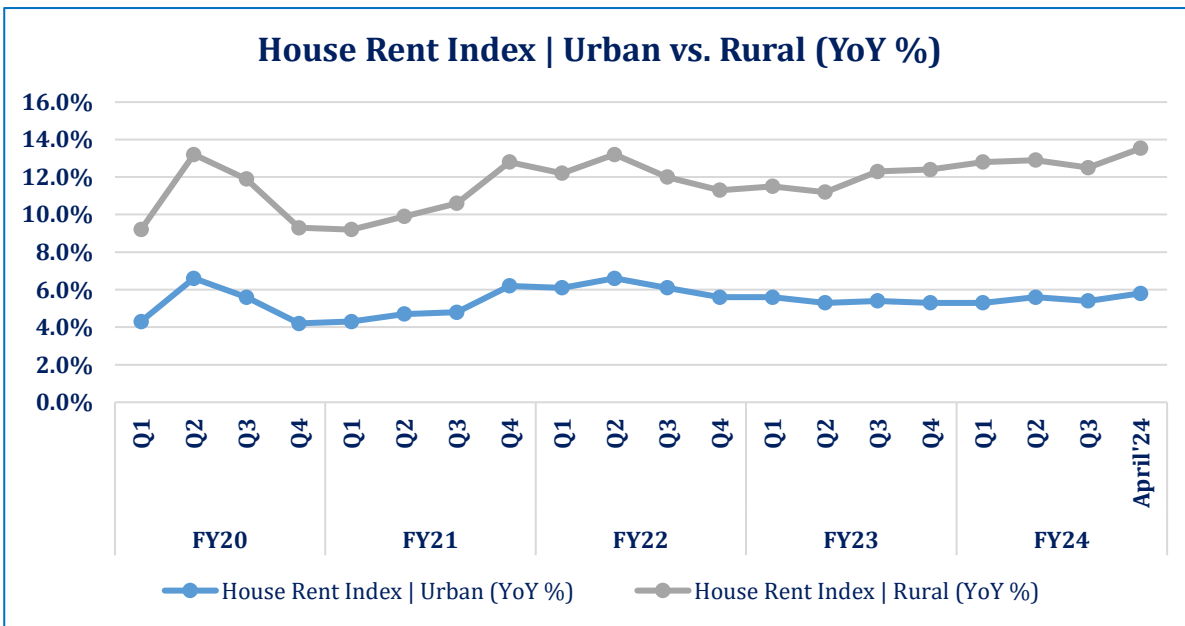
*Note: Consumer financing represents outstanding balances. For income per capita in USD, average exchange rates have been used.*



# Real Estate

## Local | CPI & House Rent Index

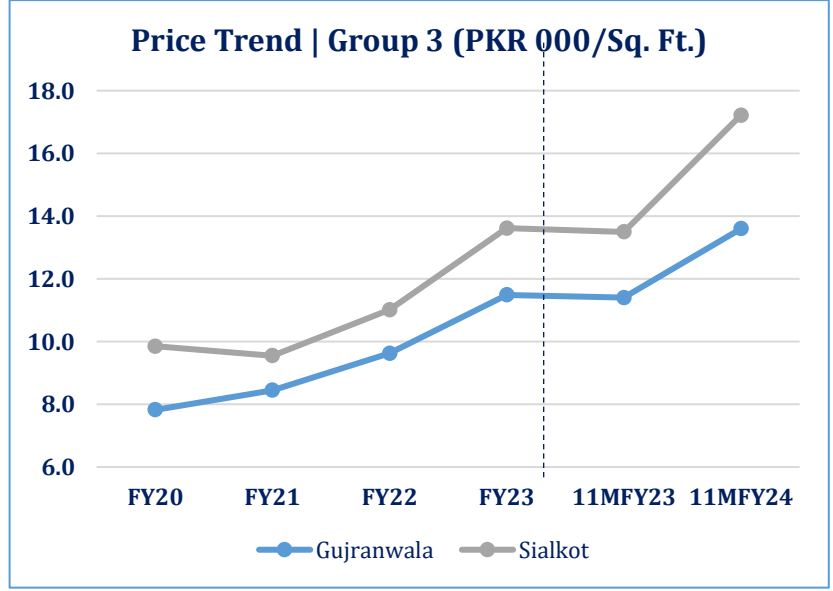
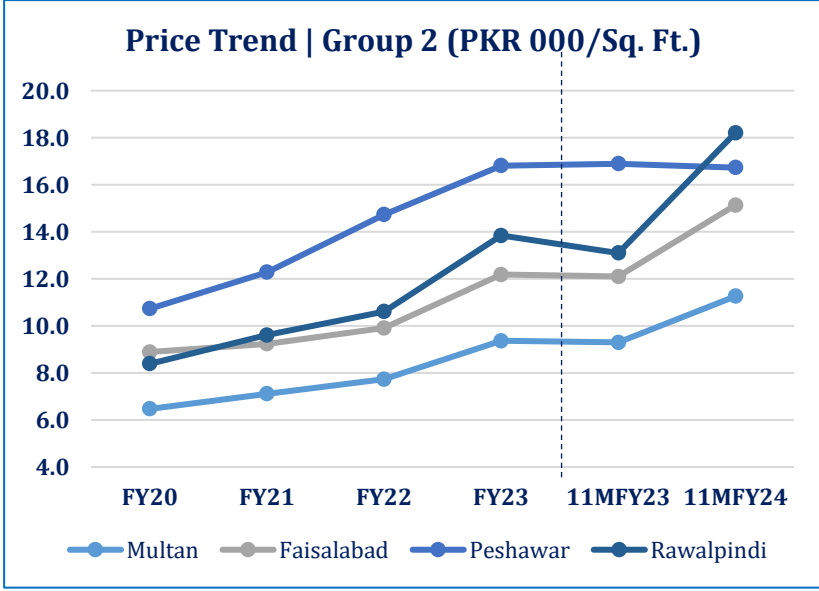
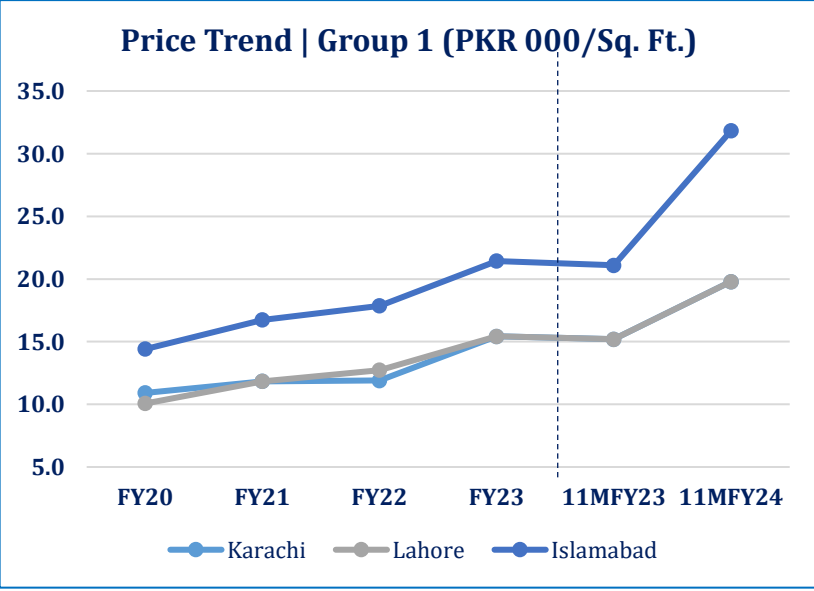
- The house rent index for urban and rural areas, despite moving in tandem, reflects that in rural areas, scarcity of available housing options can lead to higher competition among renters and an upward pressure on rental prices. An uptick was observed in the house rent index in 2QFY20 where it rose by ~6.6% YoY for both urban and rural areas. The index was up ~7.3% YoY in 2QFY24 for rural areas while for urban, it recorded 5.6% YoY increase. During Apr'24, it increased by ~5.8% YoY for urban (SPLY: ~5.3% YoY) and by ~7.7% YoY for rural (SPLY: ~7.1% YoY).
- Headline CPI averaged ~31.5% during 3QFY23 (SPLY: ~12.6%), recording at an all-time high of ~38.0% in May'23. However, it has gradually cooled off since then, averaging ~24.0% during 3QFY24. The delta between headline inflation and Non-Food Non-energy/Core inflation (NFNE) was registered at ~5.2x during 3QFY23 (SPLY: ~14.5x) and has, as of Apr'24, narrowed down to ~1.1x. Despite lower NFNE levels as compared with headline inflation, the latter served to indirectly squeeze disposable income levels, resulting thereby, in lower demand for housing.



# Real Estate

## Local | House Prices

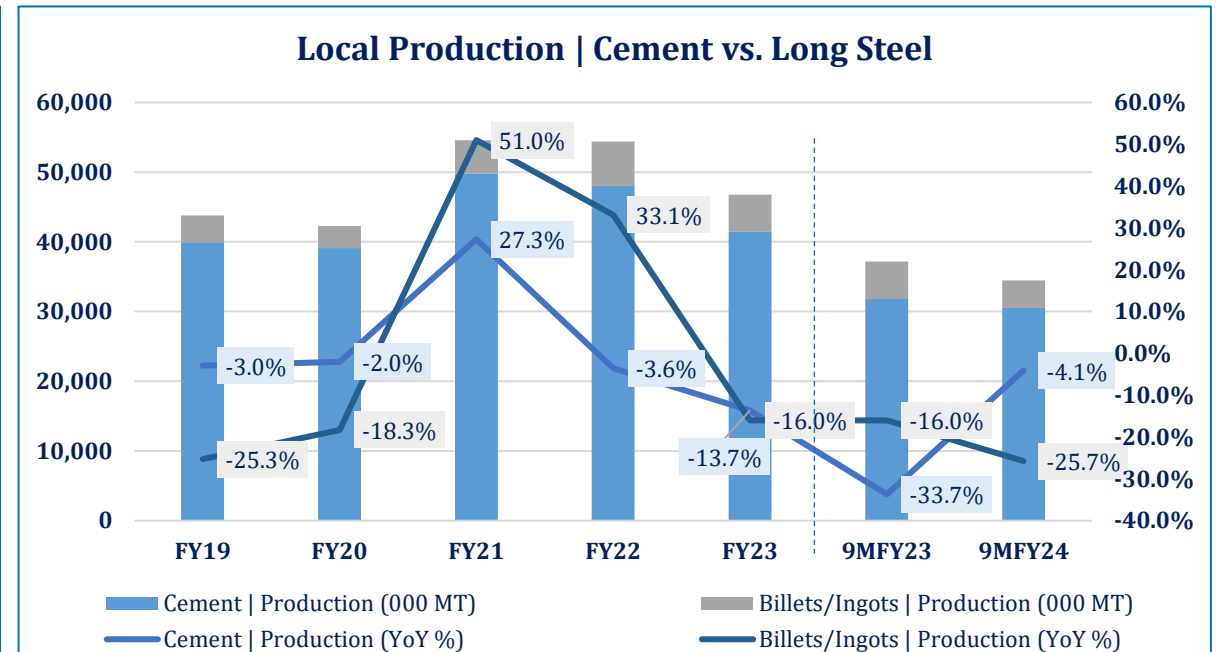
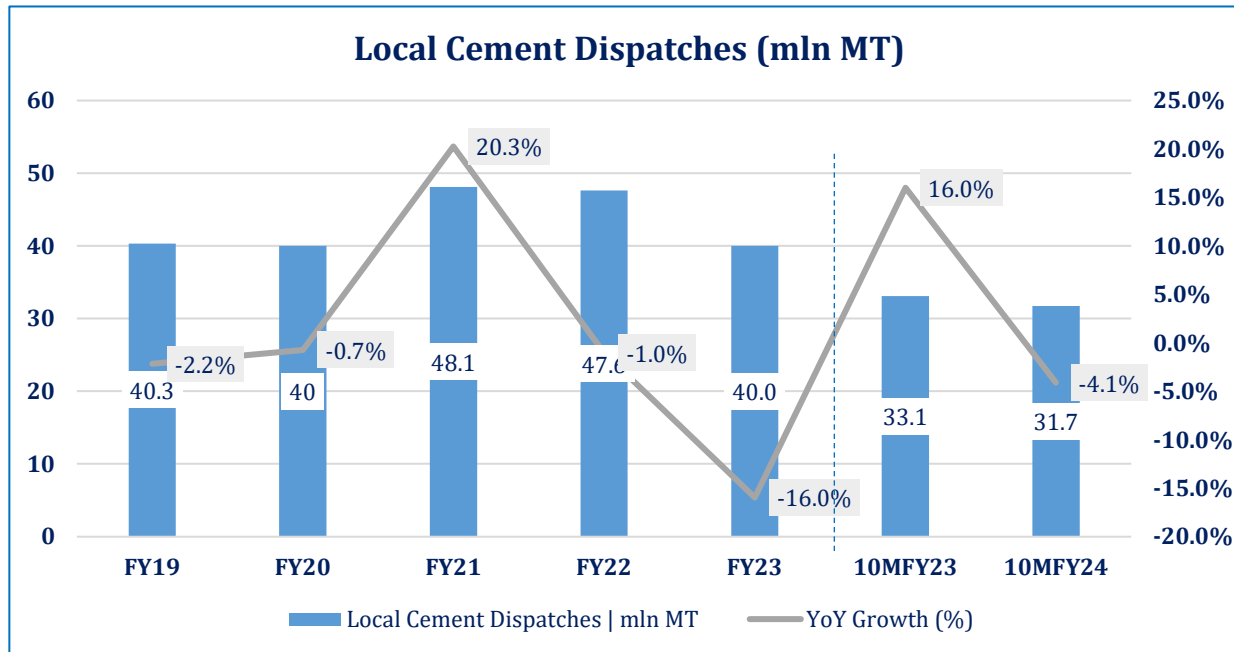
- Among Group 1 cities, prices rose, on average (CAGR) (FY20-23), ~9.0% for Lahore and Islamabad and ~10.4% in Karachi, recording at PKR~15,400/sq.ft. and PKR~21,400/sq. ft, respectively, during FY23.
- For Group 2 cities, the most pronounced effect was observed in Peshawar, where average house prices (CAGR) rose ~11.9% during the same period. Individually, average house prices clocked in at PKR~16,800/sq.ft., PKR~9,400/sq.ft, PKR~13,800/sq.ft and PKR~12,200/sq.ft, respectively, for Peshawar, Multan, Rawalpindi and Faisalabad during FY23. In Gujranwala and Sialkot, meanwhile, prices averaged PKR~11,500/sq.ft. and PKR~13,600/sq.ft., respectively, in FY23.
- In 11MFY24, prices have averaged PKR~19,800/sq.ft. in Karachi and PKR~18,100/sq.ft. in rest of the cities (with the exception of Peshawar), up ~30.3% and ~32.1% YoY, respectively. Higher prices and lower income per capita likely results in lower demand for housing among the general public, despite population increases and growing migration levels.



# Real Estate

## Local | Allied Sectoral Production

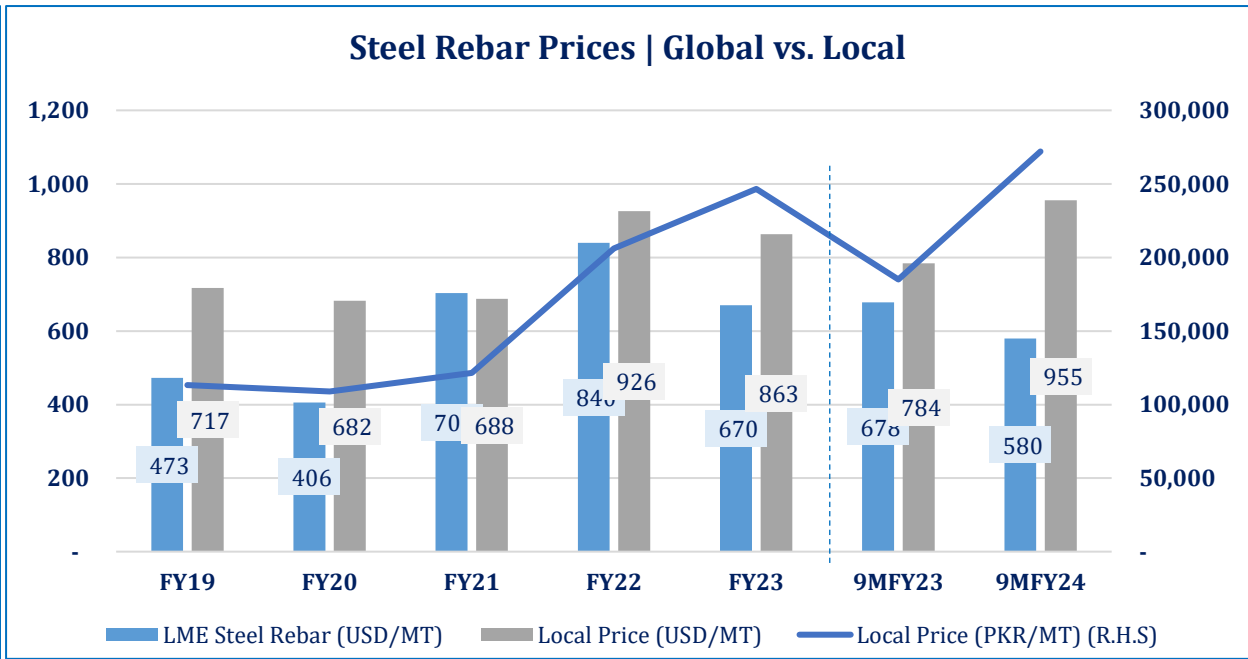
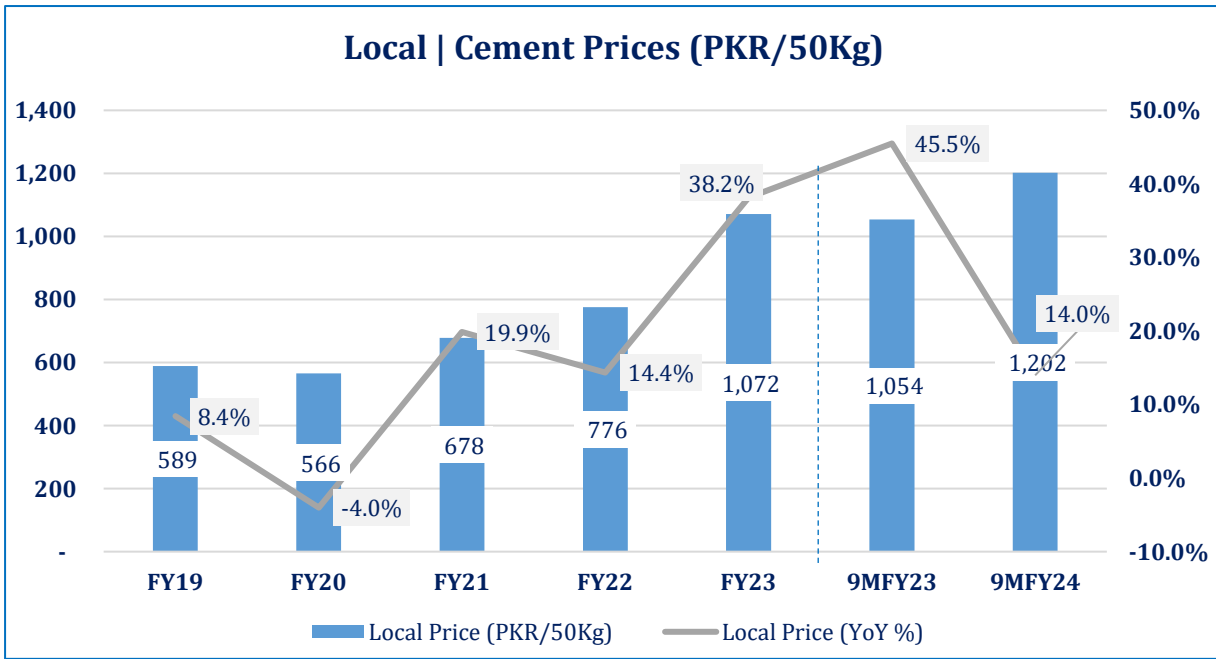
- Cement is a key construction input for the commercial and residential real estate. Growth in cement sales is a leading indicator for the real estate development activity. In FY23, local cement dispatches stood at ~40mln MT (FY22: ~47.6mln MT), declining ~16.0% YoY. In 10MFY24, local dispatches decreased by ~4.1% YoY (10MFY23: ~33.1mln MT). Low dispatches indicate slow construction activity vis-à-vis dampened demand, seeing as capacity utilization levels for cement sector players declined to ~55.0% in FY23, despite capacities increasing ~10.0% YoY.
- Local cement production was recorded at ~41,448 MT in FY23, recording ~13.7% YoY decline. Long steel (Billets & Ingots) production also declined by ~16.0% YoY during the same period. In 9MFY24, production of cement stood at ~30,502 MT, ~4.1% YoY increase (SPLY: ~33.7% YoY decline), whereas that of Billets & Ingots was down ~25.7% YoY to ~3,964 MT during the same period. The latter came about despite ~10.5% YoY increase in scrap imports during 9MFY24 and reflecting high energy costs as well as low demand from construction sector.



# Real Estate

## Local | Allied Sectoral Prices

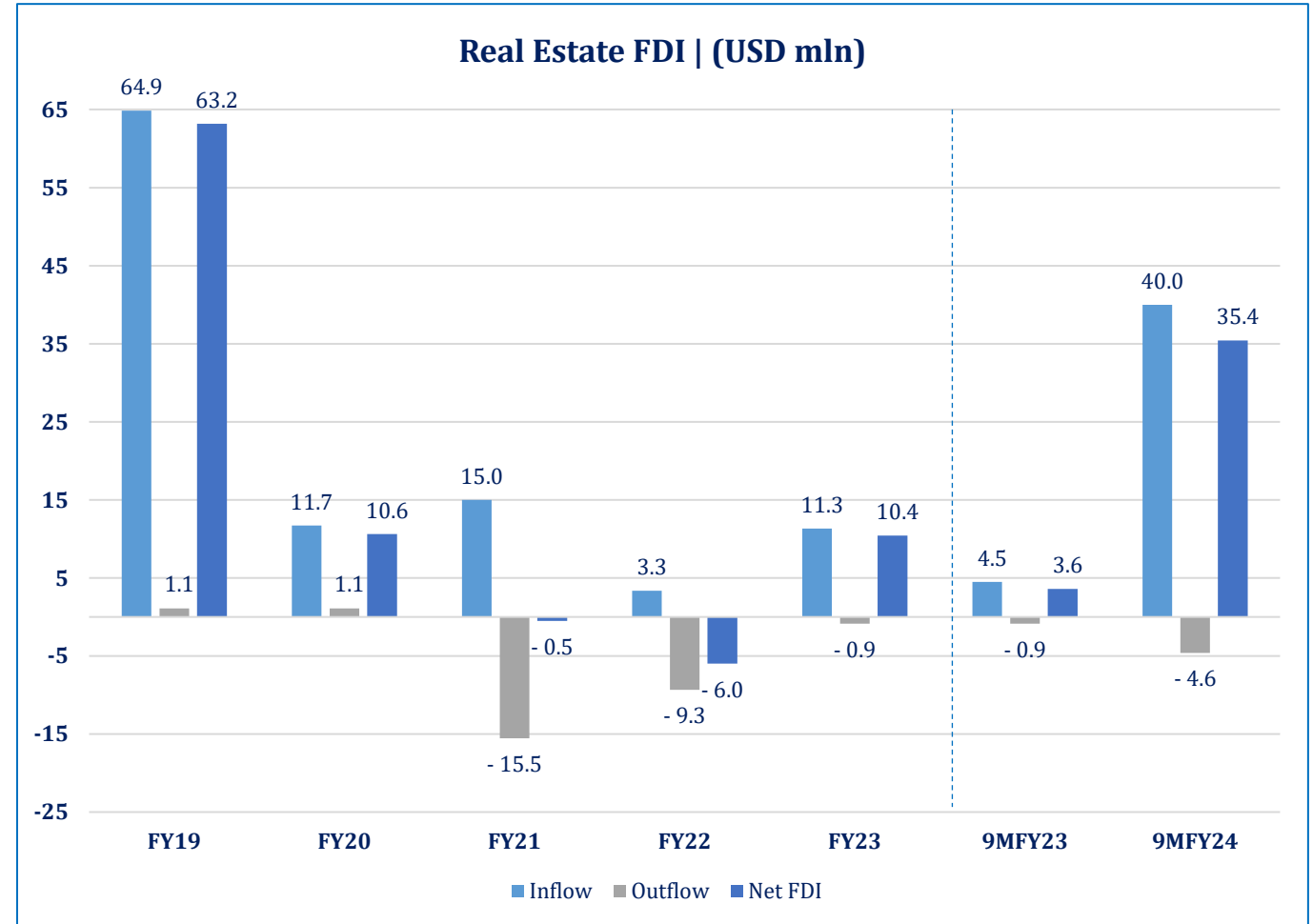
- Despite slow construction activity during FY23 and dimmed demand, local cement prices (PKR per 50kg bag) rose by ~38.2% YoY during FY23 owing to supply-side concerns including low coal imports, weakening exchange rate and high freight charges as well as energy tariffs. Average retail prices of cement increased by ~14.0% YoY in 9MFY24 (SPLY: ~45.3% YoY increase), led by continued muted growth in demand. Nevertheless, increase in cement prices drive up the prices of new homes, making housing less affordable and construction projects expensive.
- During FY19-23 (barring FY21), local steel rebar prices, in USD terms, maintained ~40% delta with international prices. In 9MFY24 period, this recorded at ~65%, owing to higher energy and raw material prices in the country.



# Real Estate

## Local | Foreign Direct Investment (FDI)

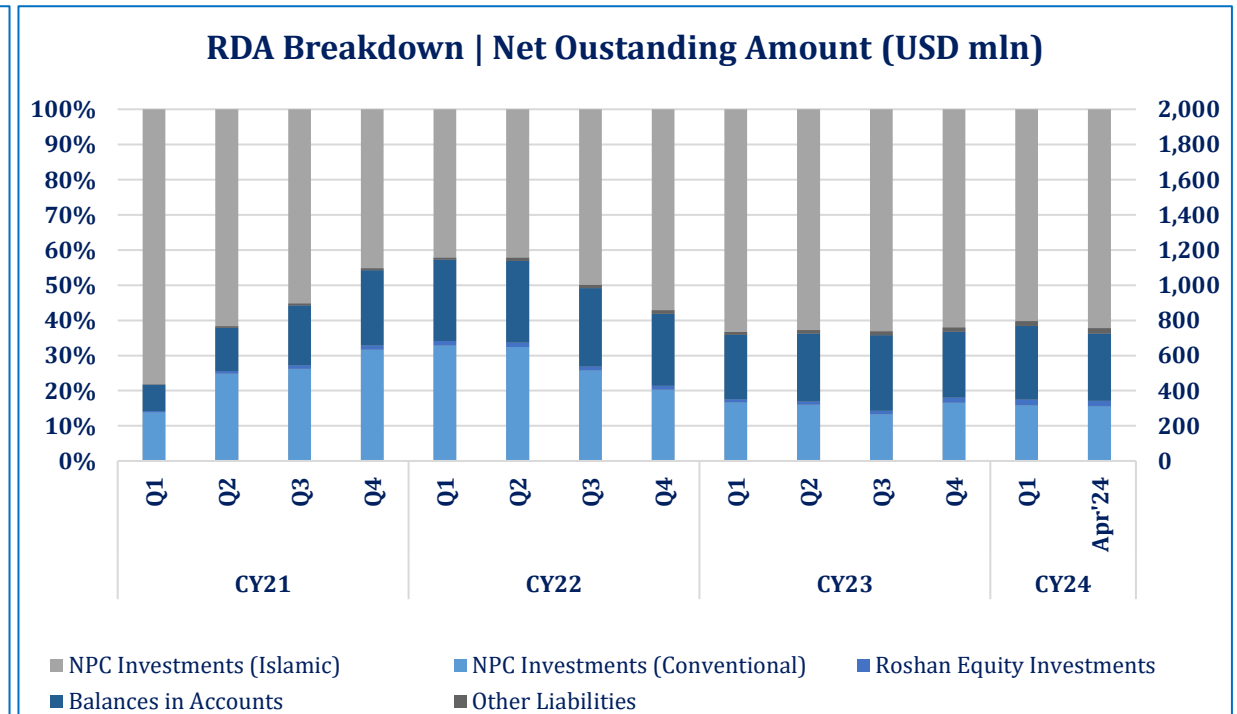
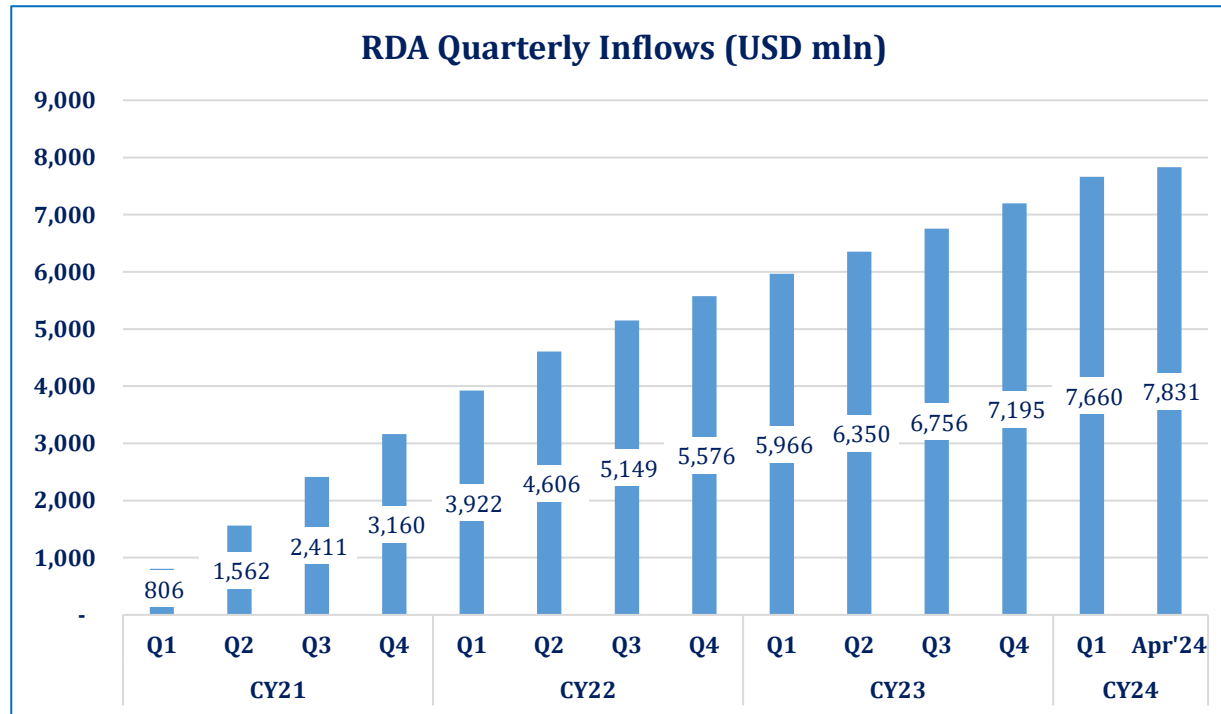
- The FDI inflows to the sector increased ~238.9% YoY to USD~11.3mln in FY23, while FDI outflows declined by ~90.6% YoY, resulting in a net FDI of USD~10.4mln, a ~274.0% YoY increase.
- 9MFY24 showed a considerable growth in FDI inflows to the sector, with these increasing ~788.9% YoY to USD~40.0mln, while FDI outflows also increased ~4.6% YoY, resulting in net FDI of USD ~35.4mln, ~883.3% YoY increase.





## Local | Roshan Digital Accounts

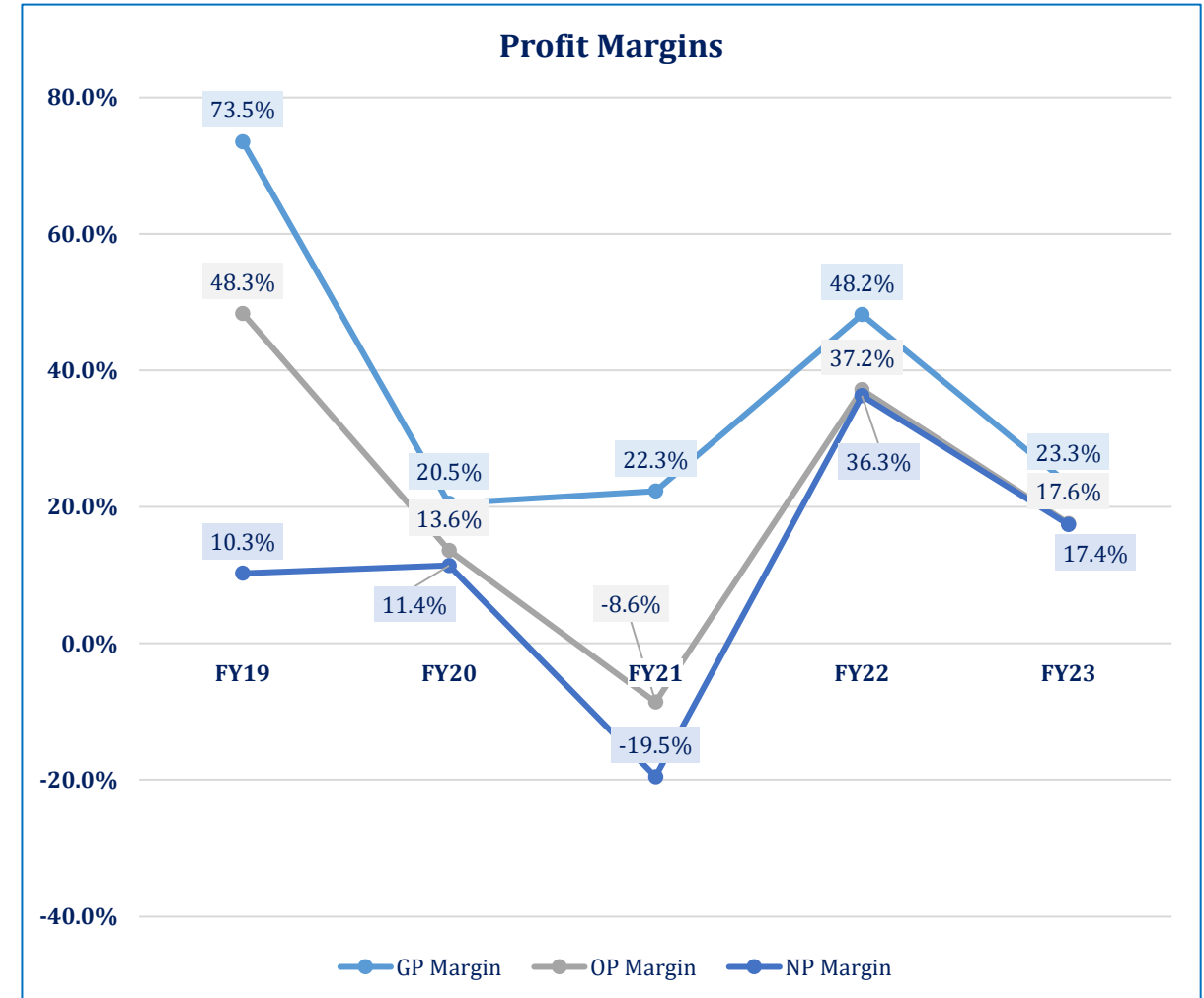
- The total number of RDA accounts, as of Apr'24, stood at ~689,650 (SPLY: ~561,617). Out of the total RDA inflows amounting to USD~22.5bln in 1QCY24 (up ~28.7% YoY), Naya Pakistan Certificate (NPC) Investments (Islamic) comprised ~96.0%. Other investments formed ~16.7%.
- With respect to the investment in property, following tax structure is applicable for the NRPs investing in RDAs:
  - Full and final capital gains tax of 1% on value at the time of sale of properties.
  - Full and final payment of 1% tax on value at the time of purchase of properties.
  - No need to file tax returns for NRPs on capital gains on sale of properties.



# Real Estate

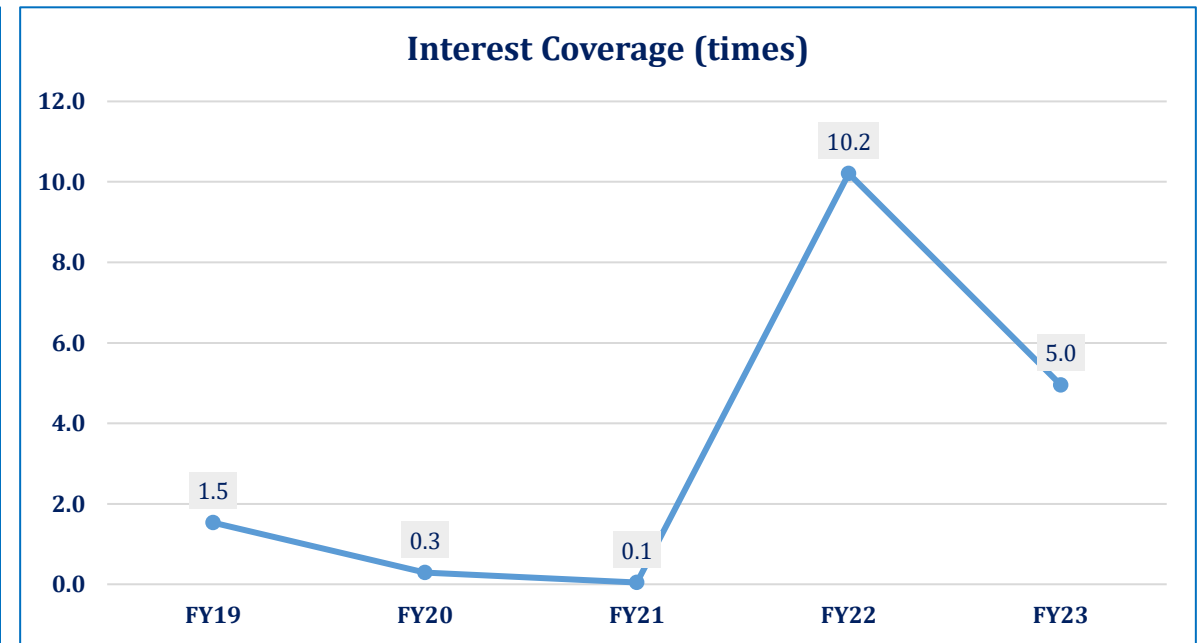
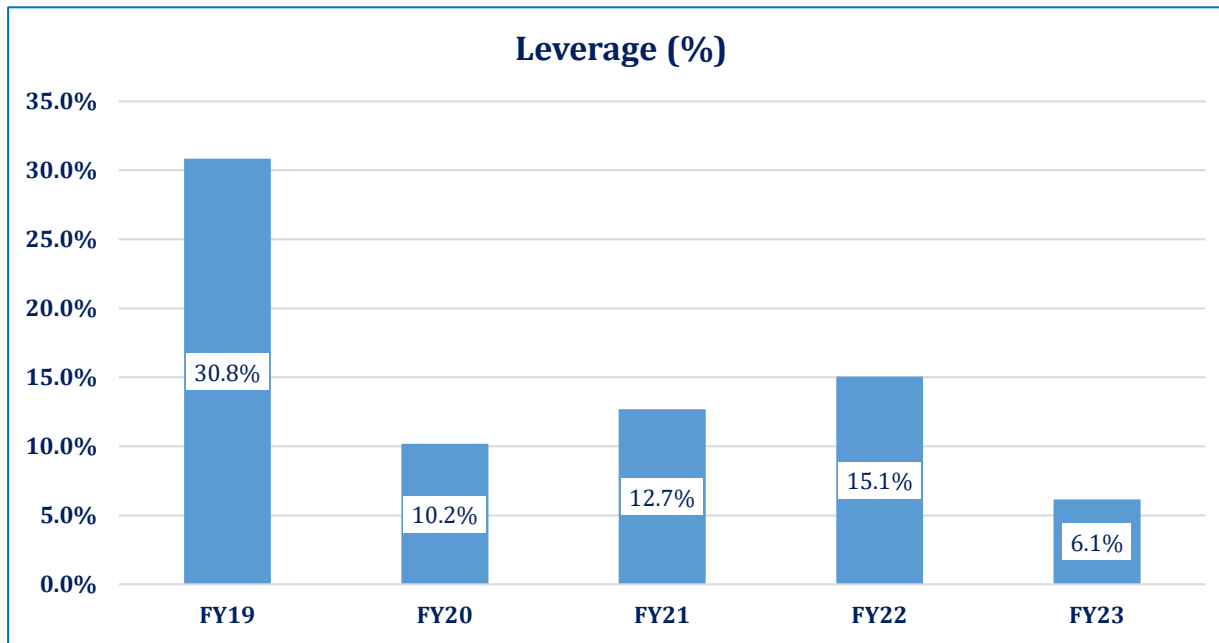
## Business Risk | Margins

- During FY23, sector's revenue was down ~16.3% YoY (FY22: ~481.2%), on the back of decline in property demand, which resulted due to high inflation levels, borrowing costs and discontinuation of subsidized schemes. Cost of sales also decreased by ~24.9% YoY in FY23 (FY22: ~170.9%).
- Resultantly, average gross profit margin were recorded at ~23.3% (FY22: ~48.2%), Moreover, higher operating and other expenses in FY23 led to average operating margins recording at ~17.6% (FY22: ~37.2%).
- Additionally, despite ~50.1% YoY lower average finance costs during FY23, average net margins declined to ~17.4% (FY22: ~36.3%). During the year, policy rate had increased ~850bps, recording at 22.0% as of End-Jun'23.



## Financial Risk | Leverage and Coverage

- In FY23, the sector's average leverage decreased to ~6.1% on the back of ~13.3% YoY lower borrowings. Of these, short-term borrowings declined ~2.3% YoY while long-term borrowing registered ~1.36% YoY decline. The sector's interest coverage dropped to ~0.1x in FY21 owing to slow business activity and lower operating profit. In FY23, this dropped to ~5.0x (FY22: ~10.2x).
- Additionally, the PKR depreciated by ~39.0% YoY, increasing input costs which had a trickle-down adverse impact on operating profits. Average operating profits were down to ~17.6% YoY hence explaining the resultant decline in sector's average coverage.

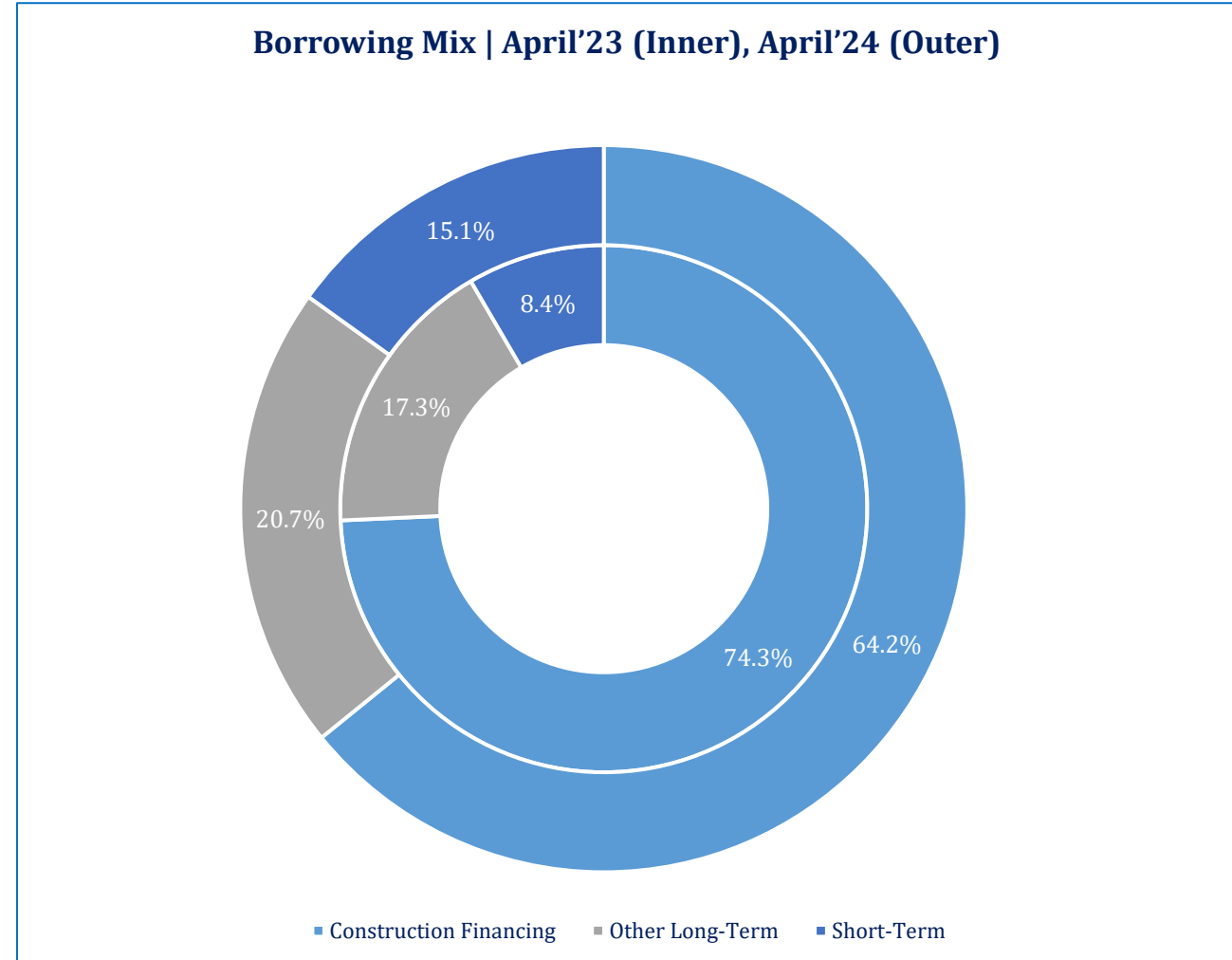


*Note: Calculations are revenue-weighted and based on ~4 PACRA-rated clients.*

# Real Estate

## Financial Risk | Borrowing Mix

- As of End-Apr'24, the sector's overall borrowings stood at PKR~35.8bln, up ~1.5% YoY (End-Apr'23: PKR~35.2bln).
- Short-term borrowings (STBs) stood at PKR~5.4bln, up by ~82.1% YoY and held a share of ~15.1% (SPLY: ~8.4%).
- Other long-term borrowings (LTBs) (excluding construction financing) at nominal rates stood at PKR~7.4bln, up ~21.9% YoY and held a share of ~20.7% in overall borrowings (End-Apr'23: ~17.3%).
- Construction financing stood at PKR~23.0bln (End-Apr'23: ~26.2bln), down ~12.3% YoY and held the largest share in the sector's borrowing mix (~64.2%; SPLY: ~74.3%).



## Local | REIT Management Companies

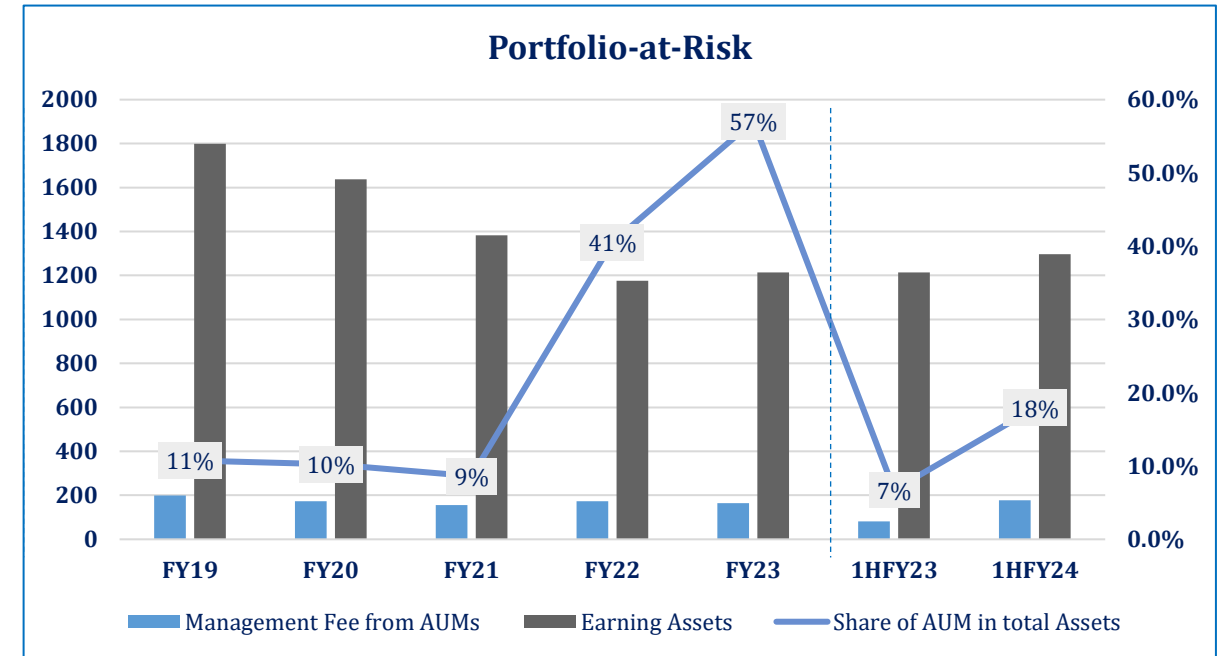
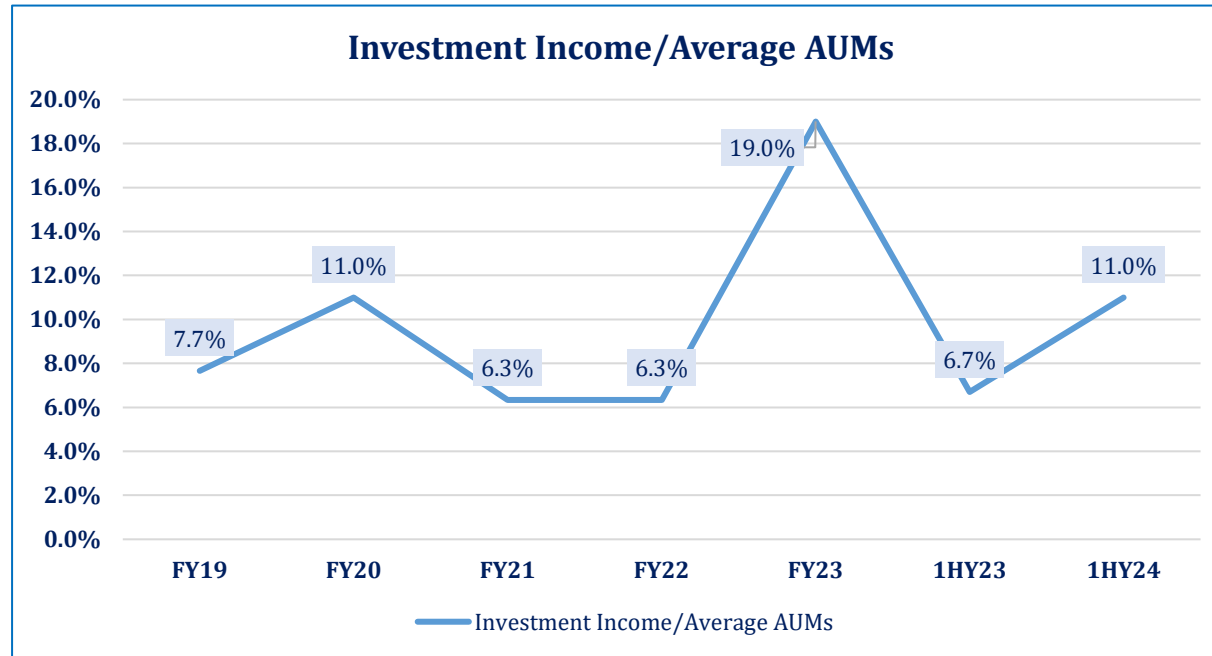


- REITs (Real Estate Investment Trusts) are an asset class that provide transparency with respect to the real estate sector and adds depth to the capital markets. These provide investment opportunities, like a mutual fund, and own, operate or finance income-producing real estate.
- Where Development REITs involve investing in the construction/refurbishment of residential, commercial or industrial properties, Rental REITs are schemes that invest in residential or commercial properties for the purposes of generating rental income.
- In Pakistan, REIT Management Companies (RMCs) represent a growing market. As at End-FY23, the total number of REIT Schemes registered with SECP has surged to a total of fifteen (15). Furthermore, the launch of two (2) additional REIT Schemes is in the pipeline and during current year, NOCs have been issued for registration of trust deeds for six (6) REIT Schemes, classified as specialized trust.
- Out of the total size of PKR~156.2bln (as at End-Mar'23) of the 15 REIT schemes, the 13 Shariah-compliant REITs are worth PKR~271.3bln, constituting ~98% of the segment. Presently (Jun'24), 2 REITs are listed on the PSX, namely, Dolmen City REIT and Globe Residency REIT, with fund sizes of PKR~22.2bln and PKR~2.8bln, respectively.



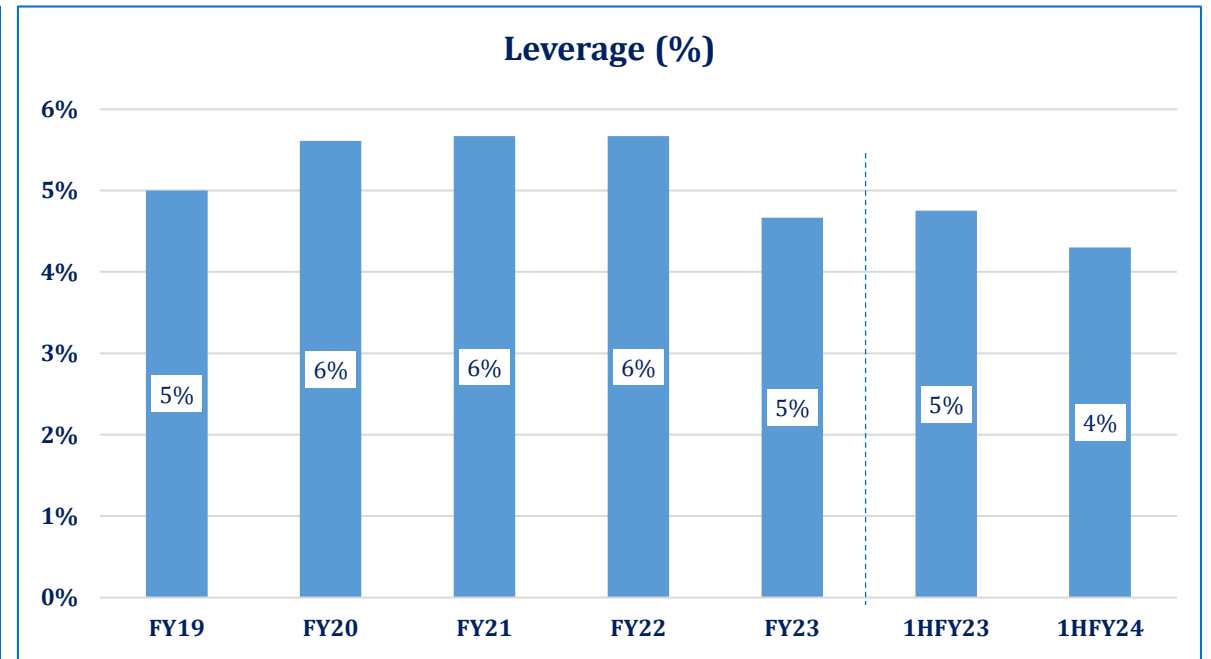
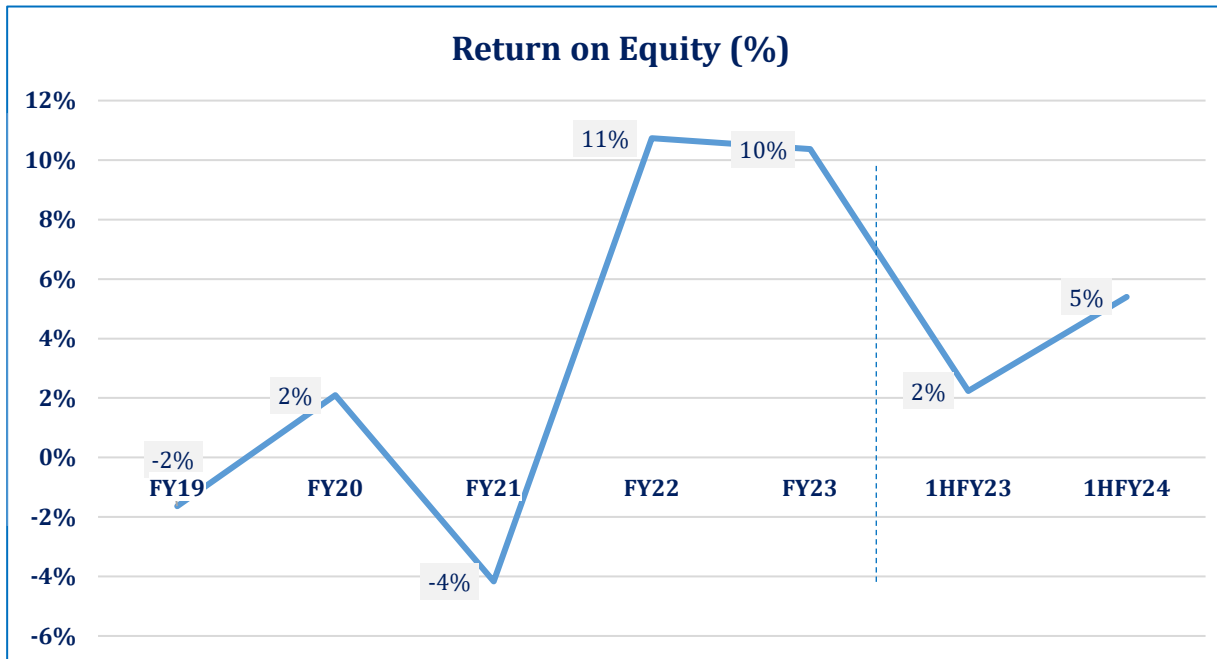
## Business Risk | REIT Management Companies

- As of March'24, ~25 RMCs (REIT Management Companies) are registered with the SECP, with total assets amounting to PKR~14.6bln (~0.4% of total assets of NBFCs) (Dec'23: ~24 RMCs with PKR~12.6bln in assets or ~0.4% of NBFCs' total assets).
- The average investment income relative to assets under management (AUMs) increased during FY23, clocking in at ~19.0% (FY22: ~6.3%). Investment income arising from management of funds to PKR~1,480mln in FY23 from PKR~618mln in FY22 of the RMCs, likely reflecting fairly good management of AUMs.
- Similarly, the average share of Assets Under Management to Total Assets has increased in FY23 to ~41.3% which was only ~38.0% in FY22. On the other hand, the average Management Fee has also escalated in FY23 to ~1,212mln (FY22: ~634mln).



## Financial Risk | REIT Management Companies

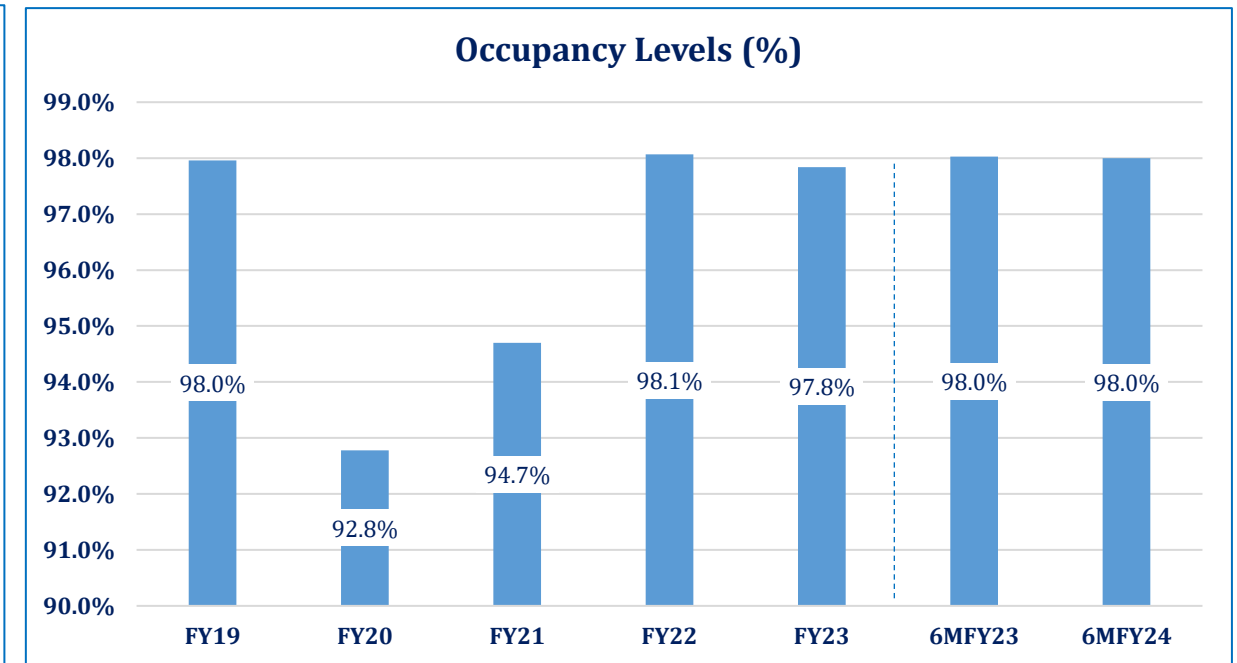
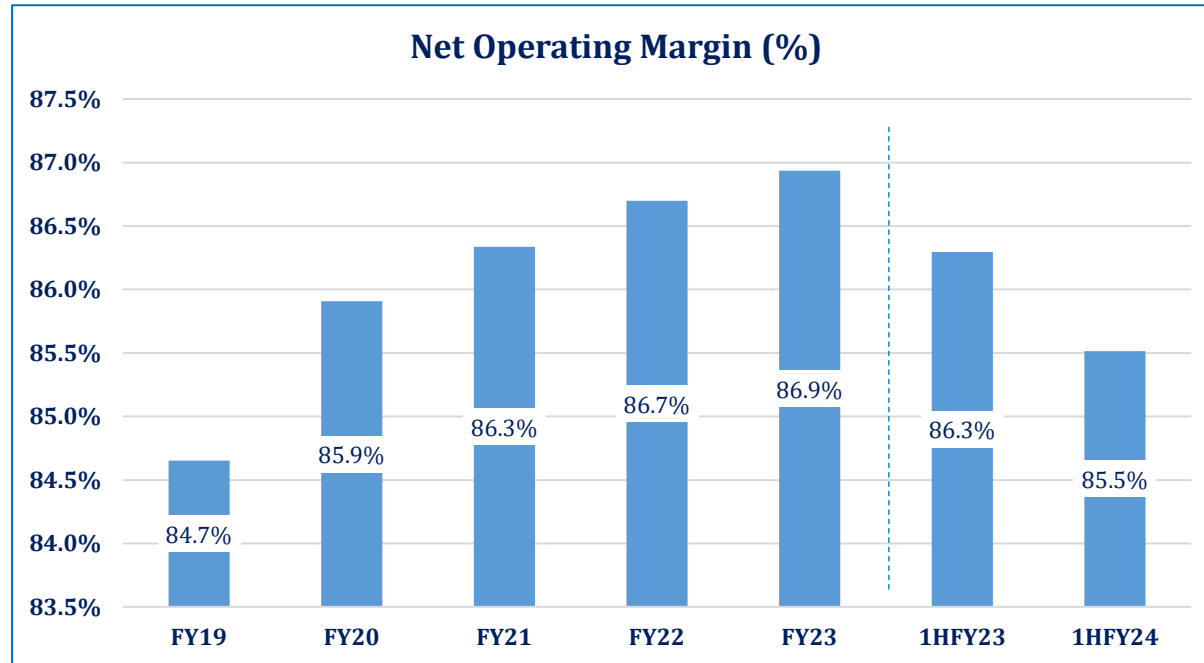
- Over the past five years (FY19-23), the leverage ratio has stayed, on an average, at ~5.2% and declined to ~5.0% in FY23 (FY22: ~6.0%), depicting a decline in the total borrowings. This signifies minimal reliance on borrowings, thereby, reducing the segment's exposure to interest rate risk. However, average interest coverage dropped to ~-5.0x in FY23 owing to slow business activity and high interest rate environment.
- The segment's Return On Equity (ROE) has displayed an inconsistent trend over the past five years (FY19-23), in line with the business performance. After dipping to ~4.0% in FY21, the returns had improved in FY22, clocking in at ~11.0%. A slight decline was observed in FY23 ~10.0%. A slight decline was observed in FY23 ~10.0%.



# Real Estate

## Local | Rental REITS

- Where developmental REITs involve investing in construction/refurbishment of residential, commercial or industrial properties, rental REITs are schemes that invest in residential or commercial properties for the purposes of generating rental income.
- In FY23, occupancy levels for Rental Real Estate Investment Trusts (REITs) had a meager decline ~97.8% (FY22: ~98.1%). In the 6MFY24 and SPLY period, the overall occupancy levels remained stable to ~98.0%. Tenancy remains stable with the mall and office space both operating at optimal occupancy.
- During FY23, net operating margin of the segment exhibited an increase of ~0.2% YoY. A slight dip of ~0.8% in net operating margin was observed in 6MFY24 (SPLY: ~86.3%). Recently, a gradual recovery has been observed in this segment led mostly by smaller commercial offices and retail options in housing schemes.



*Note: Calculations based on ~1 Listed segment player.*

# Real Estate

## Local | Duty Structure

- A resident person owning immovable property in Pakistan will be taxed on deemed income for the tax year 2022 and onwards. Such deemed income shall be computed as 5% of the fair market value of the immovable property.
- The rate of tax on such income is prescribed as 20%. This translates into an effective tax at 1% of fair market value of immovable property.
- Exclusions have been provided in case the fair market value of the immovable property does not exceed PKR 25mln, and any immovable property from which income is already chargeable to income tax is exempted.

### Capital Gain Tax under Section 37

Holding Period	Open Plots	Constructed Property	Flats
<1 Year	15%	15%	15%
1-2 Years	12.5%	10%	7.5%
2-3 Years	10%	7.5%	0%
3-4 Years	7.5%	7.5%	
4-5 Years	5%	0%	
5-6 Years	2.5%		
>6 Years	0%		

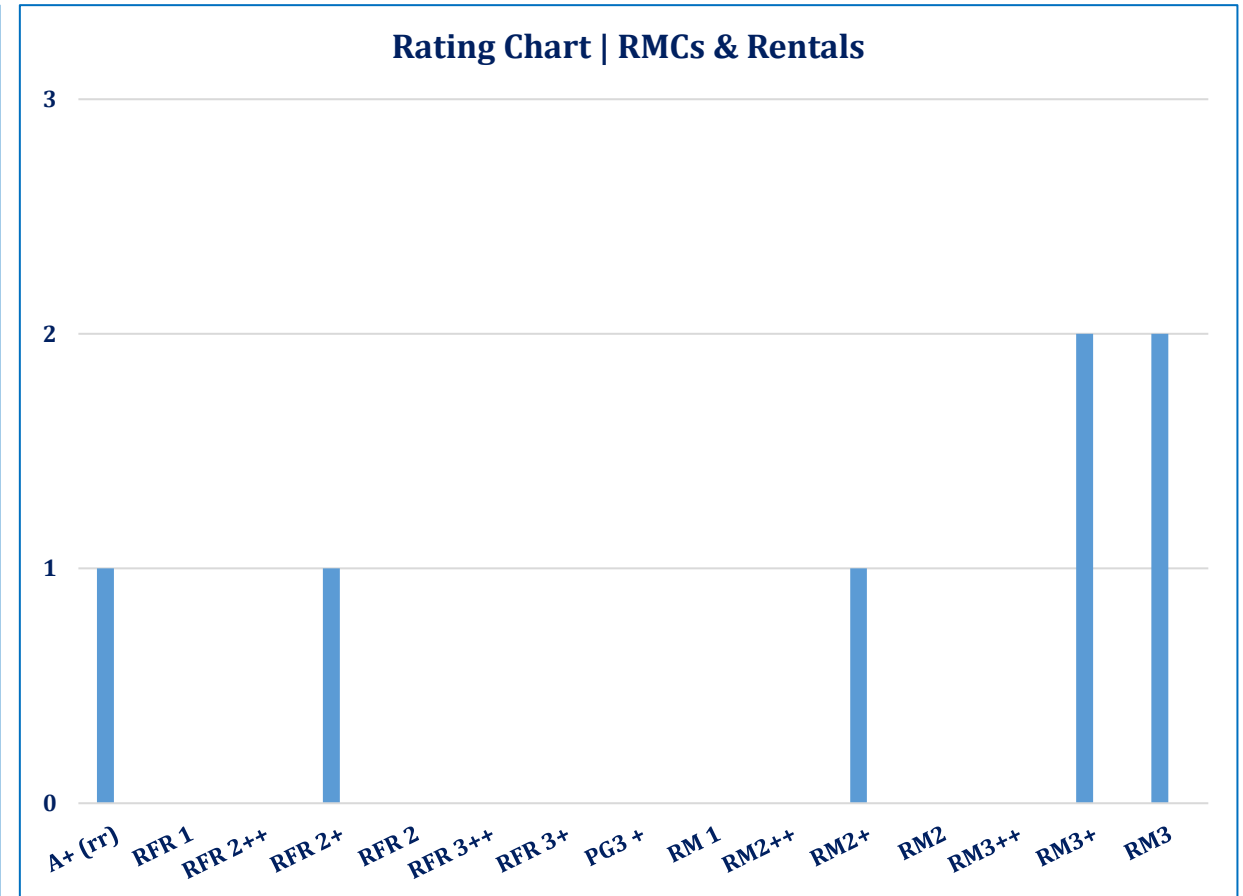
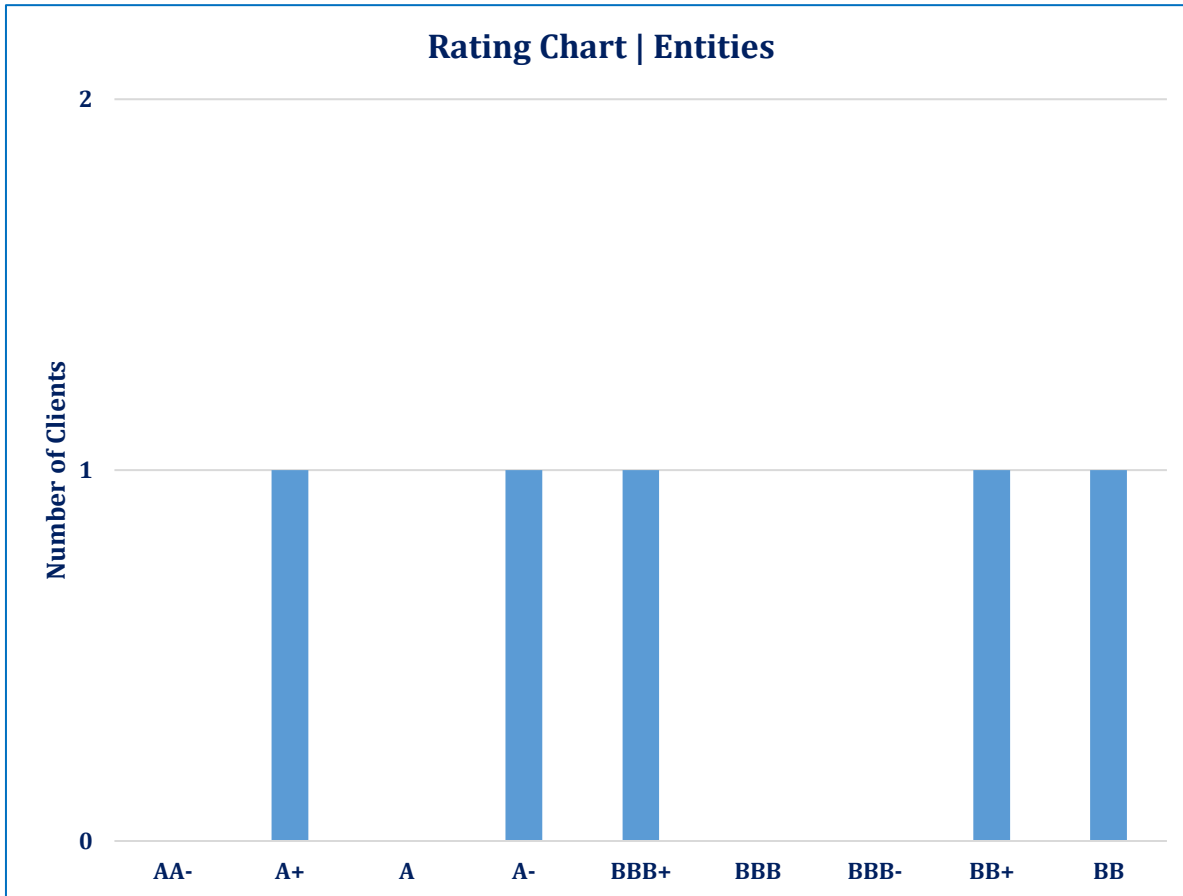
### Rent of Immovable Property (Individuals and AOP) | Withholding Tax

Gross Amount of Rent (PKR)	Rate of Tax (ATL)	Rate of Tax (Not on ATL)
<300,000	Nil	100% Increase
>300,000 and <600,000	5% of the Gross Amount exceeding 300,000	
<600,000 and <2,000,000	PKR 15,000 + 10% of the Gross Amount exceeding 600,000	
>2,000,000	PKR 155,000 + 25% of the Gross Amount exceeding 2,000,000	

# Real Estate

## Rating Curve

- PACRA rates 5 Real Estate Entities, with long-term rating bandwidth of A+ to BBB+. PACRA also rates 6 REIT Management Companies (2 of which are solely REIT Fund Rating) and 1 Rental REIT Fund, with long-term rating bandwidth of AR+(rr) to RM3+.





## Outlook: Stable

- In FY23, Pakistan's GDP (nominal) stood at PKR~79.7trn (FY22: PKR~63.3trn), contracting, in real terms, by ~0.17% YoY (FY22: ~6.3% growth). The Service segment held ~53.6% share in GDP during the year. However, the provisional data released by National Accounts reveals that Pakistan's GDP during FY24 is expected to clock in above PKR~100.0trn in nominal terms with expected GDP growth rate in real terms of ~2.4%, depicting an improved economic activity during FY24 compared with SPLY. The SBP estimates GDP growth at ~2-3% for FY24, while IMF's forecast for the same stands at ~2.0%.
- Pakistan's real estate sector contributed ~2.8% to the national GDP in FY23, with estimated market size recording at PKR~3,364bln in FY23 (FY22: PKR~3,084bln). The sector grew by ~9.1% YoY in FY23. However, growth slowed down to ~6.4% in 9MFY24 (SPLY: ~9.5% YoY) amid declining commercial property prices and increasing interest rates. Net FDI towards the sector stood at USD~10.4mln in FY23 (FY22: USD~-6.0), recording ~273.3% increase YoY. For 9MFY24, it increased ~883.3% YoY.
- In FY23, per capita income declined to USD~1,551 per capita (FY22: USD~1,767 per capita), a ~12.2% YoY. This reduced purchasing power decreased the overall demand for the housing segment.
- In 9MFY24, production of cement stood at ~30,502 MT, ~4.1% YoY increase (SPLY: ~33.7% YoY decline), whereas that of Billets & Ingots was down ~25.7% YoY to ~3,964 MT during the same period. In 11MFY24, house prices have averaged PKR~19,800/sq.ft. in Karachi and PKR~18,100/sq.ft. in rest of the cities (with the exception of Peshawar), up ~30.3% and ~32.1% YoY, respectively. Higher prices and lower income per capita likely results in lower demand for housing among the general public, despite population increases and growing migration levels.
- During FY23, sector's revenue was down ~16.3% YoY (FY22: ~481.2%), on the back of decline in property demand, which resulted due to high inflation levels, borrowing costs and discontinuation of subsidized schemes. Cost of sales also decreased by ~24.9% YoY in FY23 (FY22: ~170.9%).
- As of March'24, ~25 RMCs (REIT Management Companies) are registered with the SECP, with total assets amounting to PKR~14.6bln (~0.4% of total assets of NBFCs). The average investment income relative to assets under management (AUMs) increased during FY23, clocking in at ~19.0% (FY22: ~6.3%). Similarly, the average share of Assets Under Management to Total Assets increased in FY23 to ~41.3% (SPLY: ~38.0%). On the other hand, average Management Fee also escalated in FY23 to ~1,212mln (FY22: ~634mln).
- Going forward, the sector is likely to pick up pace, with inflations levels tapering down during 11MFY24 and the policy rate reducing to 20.5% as of June 10, 2024. However, construction activity remain muted during this time and housing prices remained high, largely on the back of high input costs for construction sector players.

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