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Abstract

The study examined the delivery of affordable housing for low-income urban households in Pakistan, focusing on housing finance, government housing programmes, institutional barriers, access to land and the treatment of informal settlements. The study adopted a qualitative literature-based methodology, drawing on peer-reviewed articles, institutional reports and policy publications. The analysis was anchored in the self-help housing theory of Turner and augmented by the enabling markets approach and the residual income approach to housing affordability. Findings reveal that Pakistan faces a housing shortage of about 10 million units, that the mortgage market remains below one percent of gross domestic product, and that the Naya Pakistan Housing Programme expanded lending but was interrupted in 2022. Institutional fragmentation, limited access to well-located land and relocation-based policies further restrict access to adequate housing. The study recommends stable long-term housing finance, release of public land near employment centres and in-situ upgrading of katchi abadis.

Keywords: *Affordable housing, low-income households, housing finance, informal settlements, katchi abadis, Pakistan*

1.0 Introduction

Adequate housing is widely recognised as a basic condition for health, security and economic participation, and its provision has become a central concern of urban policy in the Global South. Pakistan is urbanising at a pace that places sustained pressure on its housing stock. The 2023 census recorded a population of 241.5 million, of whom 38.82 percent lived in urban areas, compared with 36.44 percent in 2017 (Ministry of Finance, 2024). Urban areas grew at 3.65 percent per year against 1.90 percent in rural areas, while the number of households rose from 32.20 million to 38.34 million over the same period (Ministry of Finance, 2024). Each additional household represents new demand for a dwelling, serviced land and infrastructure.

Housing supply has not kept pace with this demand. A study by the International Finance Corporation estimated the national housing shortage at about 10 million units, growing by 400,000 units each year, and observed that supply for low-income groups remains negligible

despite high demand (Business Recorder, 2021). Nearly a third of the population does not own a home (World Bank, 2018), and between 33 and 35 percent of urban dwellers live in katchi abadis, the informal settlements of Pakistani cities (Zafar et al., 2019). Housing also carries wider economic importance, since its expansion is linked to between 30 and 40 industries (Ahmed, 2024). These developments have generated a growing body of scholarly and policy literature on affordable housing in Pakistan.

This paper presents a literature-based analysis of affordable housing delivery for low-income urban households in Pakistan, with a focus on housing finance, government housing programmes, institutional barriers, access to land and informal settlements. The study draws on scholarly literature, government and institutional reports, development agency publications and expert commentaries to construct a structured review of the subject. The paper is structured as follows: a problem statement outlining the research gap; a literature review; a theoretical framework; the research methodology; a discussion of the findings; and a conclusion with recommendations.

1.1 Statement of the Problem

Successive governments in Pakistan have announced large housing initiatives for low-income households. The Naya Pakistan Housing Programme set a target of five million homes over five years (Ahmed, 2024), and its financing component, Mera Pakistan Mera Ghar, received applications worth Rs. 500 billion and disbursed nearly Rs. 100 billion before disbursements were suspended in 2022 (Rahman, 2022). Despite these efforts, the mortgage market remains among the shallowest in Asia, with a mortgage to GDP ratio of about 0.28 to 0.32 percent in FY23, compared with 44 percent in Malaysia and 20 percent in Thailand (House Building Finance Company [HBFC], 2024). Mortgage rates reached 24 percent, and construction costs rose by 20.26 percent in 2023 (HBFC, 2024).

The existing literature on this problem is fragmented. Studies have examined housing finance (HBFC, 2024), risks in programme implementation (Baig et al., 2022), stakeholder collaboration (Malik & Nurunnabi, 2024) and informal settlements (Zafar et al., 2019) as separate concerns, while few studies have synthesised these strands into a single account. Without such a synthesis, policy continues to rely on finance-led programmes that leave the lowest income groups excluded. The problem, therefore, lies in establishing why affordable housing delivery has failed to reach low-income urban households in Pakistan and in identifying the reforms necessary to improve their access to adequate housing.

2.0 Literature Review

The concept of housing affordability has received sustained attention in the Pakistani literature. Ahsan (2019) applied the nominal group technique in the Lahore metropolitan area to identify the causes of housing unaffordability and found that insufficient housing stock compounds overcrowding, poor indoor air quality and the growth of informal settlements. The study further established that low-income families cannot afford homes even when land is allocated to them through development schemes, which indicates that land provision alone is insufficient without financial access. Sindhu (2024), in a literature-based study, estimated the national housing

shortfall at more than 10 million units and described affordability as an intersectional construct shaped by constrained finance, unequal distribution of land and infrastructure, and inadequate regulatory frameworks.

Empirical scholarship has examined the underdevelopment of housing finance as a central barrier to affordability. HBFC (2024) reported that the mortgage to GDP ratio in Pakistan stood at about 0.28 to 0.32 percent in FY23, compared with 44 percent in Malaysia and 20 percent in Thailand. Outstanding house building loans nevertheless grew by 133 percent, from PKR 89 billion in December 2019 to PKR 200 billion in December 2023, and accounted for 25.4 percent of consumer financing (HBFC, 2024). The same report identified mortgage rates of up to 24 percent, construction cost inflation of 20.26 percent in 2023 and macroeconomic instability as the principal obstacles to further growth of the mortgage market.

The International Finance Corporation has also assessed the business case for housing finance in Pakistan. According to its study, the mortgage depth ratio stood at only 0.3 percent of GDP, well below the South Asian average of 3.4 percent, while the housing shortage of about 10 million units was growing by 400,000 units each year (Business Recorder, 2021). The study attributed the underdevelopment of the market to insufficient housing finance products, limited capacity of financial institutions, inadequate long-term funding and regulatory obstacles. It concluded that supply for low-income groups remained negligible despite high demand, which indicates that the formal finance system has served mainly middle and upper income households.

The World Bank has supported the development of mortgage finance in Pakistan through the Pakistan Housing Finance Project. The World Bank (2018) approved a credit of US\$145 million to support the government's housing development vision by increasing access to mortgage financing for households, including financial and technical assistance to the Pakistan Mortgage Refinance Company. The project observed that nearly a third of the population did not own a home and that demand for housing was rising (World Bank, 2018). This intervention reflects a policy orientation in which the expansion of mortgage markets is treated as the principal route to housing affordability.

Government housing programmes have been examined through evaluation studies and policy analysis. Ahmed (2024) reviewed the Naya Pakistan Housing Programme and reported a housing backlog of about 9 million units growing by 300,000 units each year, a government target of five million homes over five years, and monthly instalment categories ranging from Rs. 5,000 to Rs. 20,000. The evaluation noted that only one dedicated housing finance company had existed in the country for decades and that the middle-income group lacked a dedicated mortgage policy framework (Ahmed, 2024). These findings suggest that the programme was introduced into a financial system with limited capacity to absorb large volumes of low-income lending.

The implementation risks of low-cost housing schemes have also been studied empirically. Baig et al. (2022) surveyed 89 contractors, developers and engineers involved in the Naya Pakistan Housing Scheme and applied the Relative Importance Index to 48 risk variables. Land

acquisition and mortgage law were ranked as the highest risks, each with an index of 0.949, followed by project design specifications, corruption at all levels, policy inconsistency and political instability (Baig et al., 2022). The study demonstrates that the barriers to low-cost housing extend beyond finance to land, legal, governance and political factors that affect project delivery.

The continuity of subsidised housing finance has been examined in policy reporting. Rahman (2022) reported that the Mera Pakistan Mera Ghar scheme received applications worth Rs. 500 billion, approved Rs. 230 billion and disbursed nearly Rs. 100 billion within one and a half years before disbursements were halted in July 2022. The suspension was linked to conditions of the International Monetary Fund that discouraged subsidies, and it left applicants who had paid processing fees and token money without a decision (Rahman, 2022). The episode illustrates the vulnerability of subsidy-based housing programmes to fiscal pressure and political change.

Institutional and governance barriers have been documented through qualitative research. Malik and Nurunnabi (2024) conducted 30 in-depth interviews with state, market and civil society stakeholders in Lahore and Islamabad and identified five barriers to collaboration in low-income housing provision: government capacity, legislation, institutional complexity, policy gaps and political will. Developers reported that they required more than 10 no-objection certificates, that procedural delays averaged two weeks per task, and that policy lacked provisions for microfinance targeted at low-income beneficiaries (Malik & Nurunnabi, 2024). The study further reported that more than 47 percent of urban households are estimated to live in squatter settlements.

The literature has also examined informal settlements and the effects of relocation. Zafar et al. (2019) studied squatter settlements in Islamabad and found that recognised settlements grew from 3,923 housing units in 2004 to 6,563 units in 2014, while 3,550 units existed in 13 unrecognised settlements by 2014. A survey of France Colony residents showed that 80 percent opposed relocation and 53 percent were willing to pay for on-site rehabilitation. The study found that re-planning at original locations proved more effective than relocation, since more than half of relocated households returned to their original sites (Zafar et al., 2019).

Access to well-located land has received increasing attention in the literature on Karachi. Hasan (2016) argues that the government is unwilling to make land available for low-income workers near their places of work, although such land exists, while low-density gated housing developments expand on the urban periphery. Hasan (2026) further contends that the housing crisis in Karachi reflects inequality rather than infrastructure alone, observing that building standards for poor settlements are lower and that relocation to peripheral sites impoverishes households, destroys community ties and adds transport costs that deprive women of employment. These findings indicate that the location of housing is as important as its cost for low-income households.

2.1 Theoretical Framework

This study is anchored in the self-help housing theory developed by John Turner as its primary theoretical framework. In *Freedom to Build*, Turner and Fichter (1972) presented housing as a process in which residents act, rather than as a finished product delivered to them. The theory holds that people should be able to decide what they need from their housing on their own terms, and that residents should control the major decisions concerning planning, design and construction (Shepard, 2023). The relevance of this framework to Pakistan is evident in the incremental building practices of households in katchi abadis, where dwellings are extended over time according to household income and need.

The enabling markets approach offers a complementary lens for understanding the role of the state in housing provision. The World Bank (1993) proposed that governments should move away from direct construction and instead create conditions in which housing markets can function, through secure property rights, the development of mortgage finance, targeted subsidies, infrastructure provision and supportive regulation. This approach informs much of Pakistan's recent housing policy, including mortgage refinancing support under the Pakistan Housing Finance Project (World Bank, 2018). Shepard (2023) observes, however, that international agencies adopted Turner's ideas mainly as a means of cost reduction and gave less weight to resident decision making.

The residual income approach to housing affordability provides a third analytical dimension. Stone (2006) argues that housing is affordable when a household retains sufficient income after paying housing costs to meet its other basic needs, rather than when housing costs fall below a fixed share of income. From this vantage point, low-income households may be unable to afford housing even where its price appears modest, since small incomes leave little residual after essential spending. Together, these frameworks permit a rounded theoretical analysis of household agency, the role of the state and markets, and the measurement of affordability in Pakistan.

3.0 Research Methodology

This study employed a qualitative literature-based research methodology, which was appropriate for a study that sought to synthesise, interpret and critically analyse existing scholarly knowledge on a defined subject. The study relied exclusively on secondary data sources, including peer-reviewed journal articles, government and institutional reports, development agency publications, evaluation studies and expert commentaries accessed through Google Scholar and the websites of credible institutions, including the World Bank, the Ministry of Finance, the House Building Finance Company and the Pakistan Institute of Development Economics. Sources were selected on the basis of their relevance to affordable and low-income housing in Pakistan, with preference given to publications from 2016 to 2026, supplemented by foundational theoretical works.

Content analysis was applied as the primary analytical technique, enabling the identification of thematic patterns, theoretical arguments and empirical findings across the reviewed literature. The themes examined included housing affordability, housing finance, government housing

programmes, implementation risks, institutional barriers, access to land and informal settlements. The study did not involve primary data collection, human participants or fieldwork, and was therefore not subject to the ethical clearance requirements associated with empirical research designs.

4.0 Discussion of the Findings

The literature reviewed in this study reveals a persistent disjuncture between the scale of housing need in Pakistan and the capacity of the formal housing system to meet it. The housing shortage is estimated at about 10 million units and continues to grow (Business Recorder, 2021; Sindhu, 2024), while the urban population is expanding at 3.65 percent per year (Ministry of Finance, 2024). Supply for low-income groups remains negligible (Business Recorder, 2021), and a large share of urban households continues to rely on katchi abadis for shelter (Zafar et al., 2019). The housing problem in Pakistan is therefore concentrated among low-income urban households.

The underdevelopment of housing finance constitutes the most frequently reported constraint in the literature. A mortgage to GDP ratio below one percent (HBFC, 2024) and mortgage rates of up to 24 percent place formal mortgages beyond the reach of most low-income households. Consistent with the residual income approach of Stone (2006), households with small and irregular incomes retain too little income after essential spending to service formal loans, even where subsidised instalments are offered. Although outstanding house building loans more than doubled between 2019 and 2023 (HBFC, 2024), the literature provides little evidence that this growth reached the lowest income groups.

The performance of government housing programmes reveals the limits of a finance-led approach. The Naya Pakistan Housing Programme set a target of five million homes (Ahmed, n.d.), yet its financing scheme was suspended in 2022 after disbursing nearly Rs. 100 billion against applications worth Rs. 500 billion (Rahman, 2022). The risks identified by Baig et al. (2022), including land acquisition, mortgage law, corruption, policy inconsistency and political instability, indicate that programme outcomes depended on factors beyond the availability of subsidised credit. The dependence of the programme on subsidies and political cycles undermined its continuity and public confidence.

The literature further demonstrates that institutional fragmentation raises the cost and duration of housing projects. The five collaboration barriers identified by Malik and Nurunnabi (2024), including the requirement for more than 10 no-objection certificates and the absence of microfinance provisions, are consistent with the governance risks reported by Baig et al. (2022). These findings indicate that the enabling role assigned to the state by the World Bank (1993) has been only partly realised in Pakistan, since weak legislation, overlapping jurisdictions and limited administrative capacity continue to obstruct both public and private housing supply.

The treatment of informal settlements reveals that the problem of access extends beyond finance to the location of housing. The findings of Zafar et al. (2019) demonstrate that relocation to distant sites has largely failed, while on-site re-planning has proved more effective

and is preferred by residents. Hasan (2016, 2026) shows that the reluctance of authorities to release land near places of work pushes low-income households either into informal settlements or to peripheral sites with higher transport costs. These findings are consistent with the self-help housing theory of Turner and Fichter (1972), which holds that housing outcomes improve when residents retain control over location and building decisions.

In summary, this study has examined affordable housing delivery for low-income urban households in Pakistan through a literature-based analysis anchored in self-help housing theory and complemented by the enabling markets approach and the residual income approach to affordability. The review of empirical scholarship reveals that housing finance remains shallow, that government programmes expanded lending but were interrupted, and that institutional fragmentation, limited access to well-located land and relocation-based policies further restrict access to adequate housing. Across these themes, a consistent tension has persisted between finance-led policy and the incomes, building practices and locational needs of low-income households.

5.0 Conclusion

This study has demonstrated that affordable housing delivery for low-income urban households in Pakistan is contingent on the depth of housing finance, the stability of public programmes, the coherence of institutions and access to well-located land. The self-help housing theory of Turner and Fichter (1972) provides an analytically productive lens for understanding why households in katchi abadis build incrementally and resist relocation. The findings also confirm that finance-led programmes based on the enabling markets approach have expanded lending but have not reached households whose residual income cannot support formal mortgages.

The core conclusion of this paper is that affordable housing policy in Pakistan requires a recalibration from a model driven primarily by mortgage subsidies towards an integrated model that combines finance, land, institutional reform and support for incremental housing. This recalibration must involve stable long-term housing finance for low-income households, the release of public land near employment centres, simplified approval procedures, and the upgrading of informal settlements in place. Without such a recalibration, Pakistan risks widening the gap between the formal housing market and the low-income urban majority.

6.0 Recommendations

Based on the findings and conclusions of this study, the following recommendations are advanced:

- i. The Federal Government and the State Bank of Pakistan should establish a stable, long-term housing finance framework for low-income households that is protected from abrupt suspension, including microfinance products for incremental construction.
- ii. Provincial governments and development authorities should release public land near employment centres for low-income housing, so that affordable housing is located close to places of work.

- iii. The government should reduce institutional fragmentation by consolidating housing approvals and reducing the number of no-objection certificates required for low-cost housing projects.
- iv. Provincial governments should adopt in-situ upgrading and tenure regularisation of katchi abadis in place of relocation to peripheral sites, in consultation with residents.
- v. Future research should evaluate the outcomes of the Naya Pakistan Housing Programme for low-income beneficiaries and measure housing affordability in Pakistani cities using the residual income approach.

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