Karachi School of
Business & Leadership

Urbanization, Housing Supply, and the Credit Gap in Pakistan

Policy Brief

The Insight Lab is a research center at the Karachi School of Business and Leadership (KSBL) where academic rigor meets the intellectual integrity. Operating at the intersection of business, policy, and applied research, the Lab ensures its work is grounded in principles of ethics and anchored in market realities. By combining high-level competence with ethical stewardship, it addresses real-world economic and institutional challenges. The Lab functions as a bridge between academia, industry, and the policy community, fostering the dialogue necessary to strengthen decision-making across the public and private sectors.

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Background

Homeownership in Pakistan transcends mere shelter—it represents financial security, social standing, and intergenerational wealth. Yet this aspiration collides with demographic realities reshaping the housing landscape. According to UN Population projections, the country will become the third-largest nation by 2100 with 511 million inhabitants, trailing only China and India.[1] This explosion in population poses risks for economic security, food provision, and housing at scale. The magnitude—more than doubling from today's 241.5 million in roughly three generations—demands urban planning and infrastructure development.

Pakistan needs close to one million new units every year. Countless factors compound this problem: land markets remain speculative, regulatory oversight is largely absent, and construction costs have surged on currency depreciation. Formal financing is almost non-existent, with mortgage penetration among the lowest in South Asia. Rising urbanization complicates this further, concentrating demand on small pockets of urban landmass and bidding up prices.

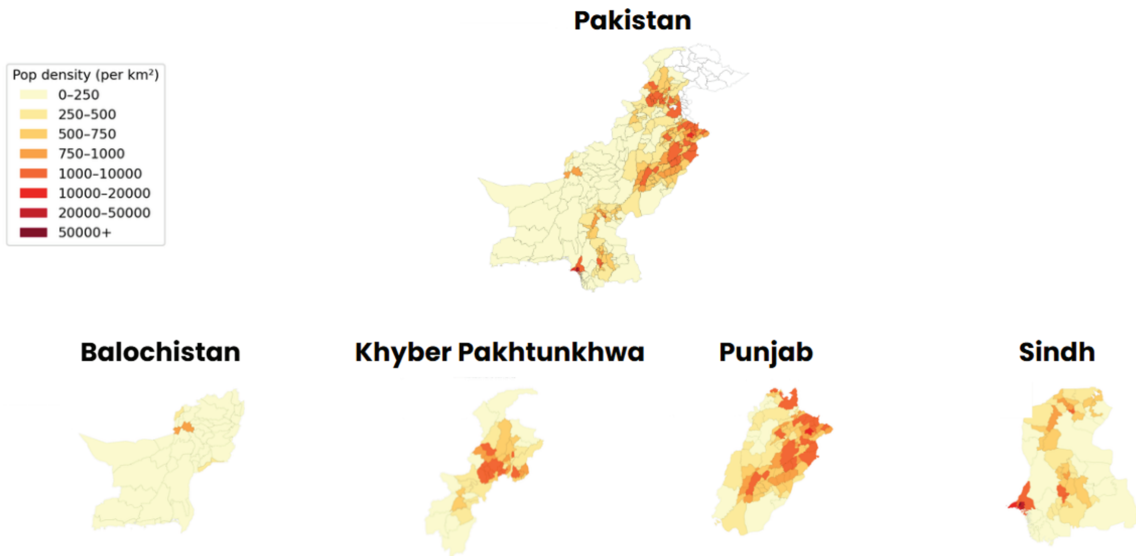
Pakistan's urban transformation is accelerating. While 61% of the population still resides in rural areas, the remaining 39% in urban centers represents a rapidly expanding segment.[2] Cities are growing at 3.65% annually, almost twice the rural rate of 1.90%. This marks a notable acceleration from 2017 census figures, which recorded urban, national, and rural growth rates at 3.0%, 2.4%, and 2.0% respectively.[3]

Reported figures likely understate urbanization levels as they classify on the basis of administrative zones rather than population or other urban characteristics. The gap between official census data and satellite imagery is extreme: according to recent World Bank research, almost 88% of the Pakistani population is already living in urban areas.[4]

Where Pakistan's Population Lives

Karachi alone illustrates how extreme concentration can get: its Central District reaches 55,396 people per square kilometer, followed by Korangi at 28,972, Karachi East at 28,214, and Karachi South at 19,096. These four districts alone house over 13 million people in areas with little remaining land for horizontal expansion. At the subdivision level, the picture is starker. Lyari has 158,313 people per square kilometer, Garden 125,704, and Liaquatabad 91,284—densities exceeding Manhattan (27,000/km²) and approaching Dhaka's most crowded neighborhoods (200,000+/km²).

Pakistan Population Density Heat Map



Source: 7th Population and Housing Census 2023 (PBS), authors' calculations

Beyond Karachi, density drops sharply but remains sizable in key cities. At the district level, Lahore contains 13 million people at 7,339 per square kilometer. Peshawar houses 4.8 million at 3,135 per square kilometer, while neighboring Mardan adds 2.7 million at 1,682 per square kilometer. Gujranwala, Faisalabad, and Rawalpindi cluster between 1,157 and 1,645 people per square kilometer, each with 6-9 million inhabitants.

The top 20 districts by density contain 83M people. This translates into 35% of Pakistan's population, yet occupy just 5% of national land area. Basically, housing shortage is a mismatch problem: the most populous geographies have the least land. Growth rates compound the problem: Ferozabad subdivision grew at 7.4% annually between 2017 and 2023, nearly three times the national average. Housing needs intensify where land constraints are most severe and supply mechanisms least responsive.

Where New Housing Must Materialize

At the district level, unit counts make the geography concrete. By the end of 2025, the top 20 districts will require 412,707 units—42% of Pakistan's total annual demand—despite occupying just 5% of national land area. Lahore alone accounts for 54,559 of these, Karachi's seven districts collectively for 147,676. Gujranwala needs 25,399, Rawalpindi 21,286.

These are the districts least equipped to deliver. Land prices in Lahore have surged 96% since COVID. Karachi's districts, already among the densest on earth, have virtually no developable space left. Without interventions targeting supply bottlenecks in these specific locations, demand will continue translating into price appreciation rather than new construction.

Pakistan's Population Concentration

83M People in the Top 20 Densest Districts

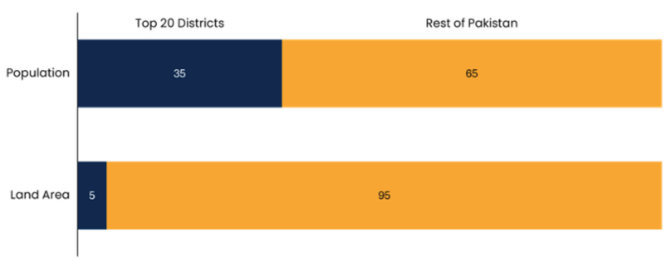
35% Of Pakistan's Population

5% Of National Land Area

412K Units Needed in Top 20 Districts

42% Of Pakistan's Annual Housing Demand

Population vs Land Distribution



Top 10 Districts by Density

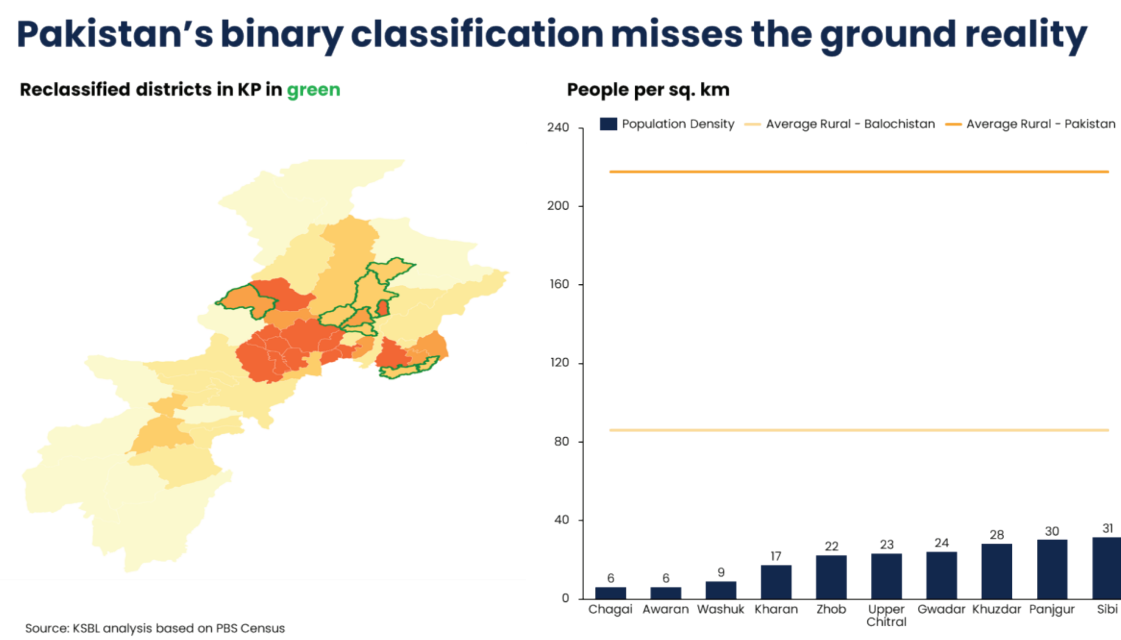
Name	Density	Population	Area in Sq Km	Additional Houses
Karachi Central	55,396	3.8M	69	28,947
Korangi	28,972	3.1M	108	16,609
Karachi East	28,214	3.9M	139	36,303
Karachi South	19,096	2.3M	122	20,799
Lahore	7,339	13M	1,772	54,559
Karachi West	7,242	2.6M	370	20,893
Keamari	3,700	2.1M	559	6,759
Peshawar	3,135	4.8M	1,518	11,144
Hyderabad	2,450	2.4M	993	7,677
Charsadda	1,843	1.8M	996	5,917

Source: 7th Population and Housing Census 2023 (PBS)

A Note on Planning

This surging demand, driven by high birth rates and inward migration, requires new housing supply where it matters most: in urban areas. While the government is not directly involved in construction, it remains an important actor in planning and resource distribution. That planning, however, relies in part on urban-rural classifications that haven't been systematically updated since 1972.

The results are striking. Across Pakistan, numerous dense areas remain classified as rural in government records. In Khyber Pakhtunkhwa, only a handful of tehsils carry an urban designation. Shah Alam in Peshawar District, with 3,675 people per square kilometer, is still officially rural.

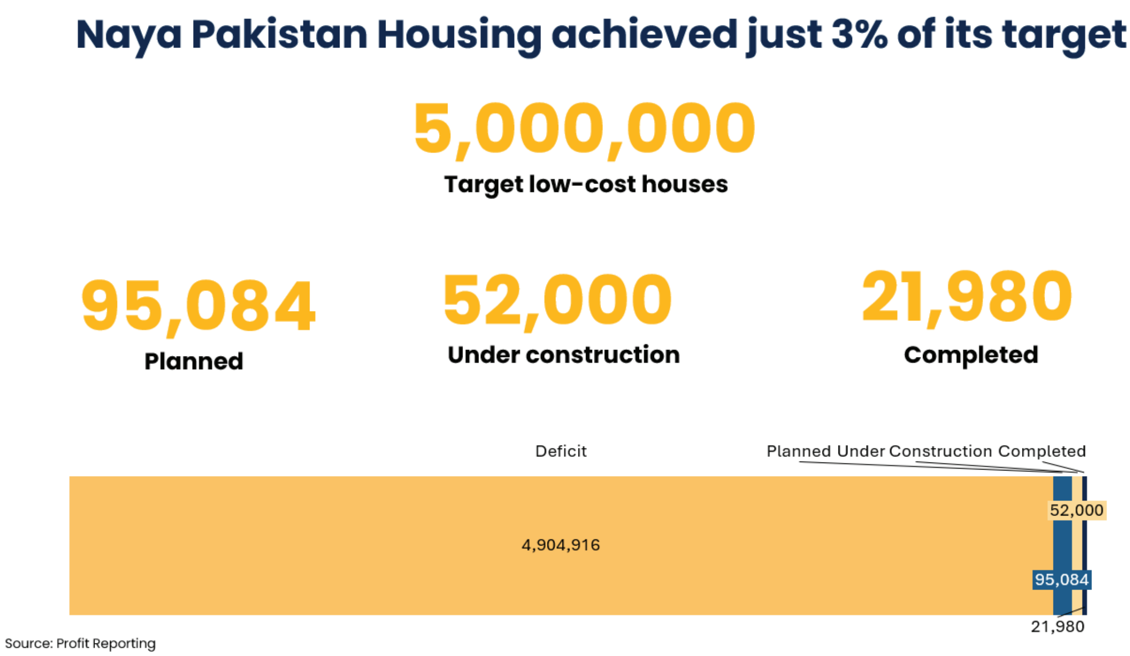


Part of the problem is the classification system itself. Forcing every area into either "urban" or "rural" ignores the reality of places that fall between these extremes. These are areas denser than villages, subject to urban infrastructure pressures, but not yet carrying the full character of a city. The UN's Degree of Urbanisation framework uses three categories for exactly this reason: cities, towns and semi-dense areas, and rural areas.[5] Pakistan's planning system has never adopted anything similar.

The map above shows what reclassification looks like on the ground in KP, with green outlines marking tehsils redesignated on the basis of population density: above 1,000 per square kilometer as urban, 500 to 1,000 as semi-urban, and the rest rural. The cluster around Peshawar and its neighboring districts gives a sense of how much urbanization official figures are not capturing.

The Supply Gap

As demand for housing grows fast, and likely faster than official figures capture given the misclassification problems documented above, supply has failed to keep pace. The formal housing sector faces land acquisition challenges, complex regulatory approvals, high construction costs, and limited financing access. The result is a structural shortage that pushes prices upward and forces lower-income households into informal settlements or substandard housing. Occasionally, the government has attempted interventions on both fronts: supply-side programs to catalyze construction and demand-side mortgage subsidies to improve affordability. *Apni Basti* under Junejo in 1987 and *Mera Ghar* under Nawaz Sharif in 1996 were such initiatives but fell short of a coherent, large-scale policy.[6]



With Pakistan's cumulative housing deficit estimated at over 10 million units and growing, the government launched the Naya Pakistan Housing Program in October 2018 as a major supply-side intervention.[7] The program employed a hybrid model: NAPHDA coordinated with provincial governments, provided PKR 300,000 per-unit subsidies to developers, facilitated land and infrastructure, arranged mortgage financing through banks, and oversaw some direct construction through the Federal

Government Employees Housing Authority—while private developers handled most building. The target was five million houses.

Actual delivery by mid-2022: 21,980 low-cost houses completed, approximately 52,439 under construction, 95,084 in planning. The modest figure overstates achievement. A significant portion consisted of rebranded existing projects—apartments for government employees priced at Rs 9-10 million—while 3,000 Workers Welfare Fund units could only be rented, not owned. The 97% shortfall exposes the difficulty of scaling housing supply even through comprehensive government coordination and subsidies. That failure has left its mark on prices.

Geographic Concentration and Market Dynamics

The supply-demand imbalance manifests differently across Pakistan's urban landscape. To understand how prices respond to surging demand against constrained supply, we examined Zameen.com data across four major cities: Karachi, Lahore, and Islamabad as the most urbanized centers, plus Peshawar given KP's severe misclassification issues. Zameen data skews toward upper-income segments and remittance-driven purchases, so these figures likely understate lower-income housing pressures.[8]

Since COVID-19, property values surged across all four cities: Islamabad 121%, Peshawar 105%, Lahore 96%, Karachi 95%. Geography compounds the crisis. Karachi exemplifies extreme land constraints—districts reach densities of 55,396 people per square kilometer in Karachi Central, 28,214 in Karachi East, 19,096 in Karachi South—leaving virtually no room for horizontal expansion. Where population concentrates this intensely and supply remains constrained, prices rise.

Recent trends show acceleration. In the past year alone, Karachi prices jumped 30% and Peshawar 19%—the cities where our analysis identified severe misclassification and corresponding supply failures. Against negative real wage growth and systematic underestimation of housing needs, the market grows detached from household capacity.

Islamabad now commands PKR 31,000 per square foot, Karachi PKR 25,430, Peshawar and Lahore cluster around PKR 21,000-21,500. Homeownership becomes unattainable where urban growth is fastest.

Table 1: Property Price Trends Across Major Cities

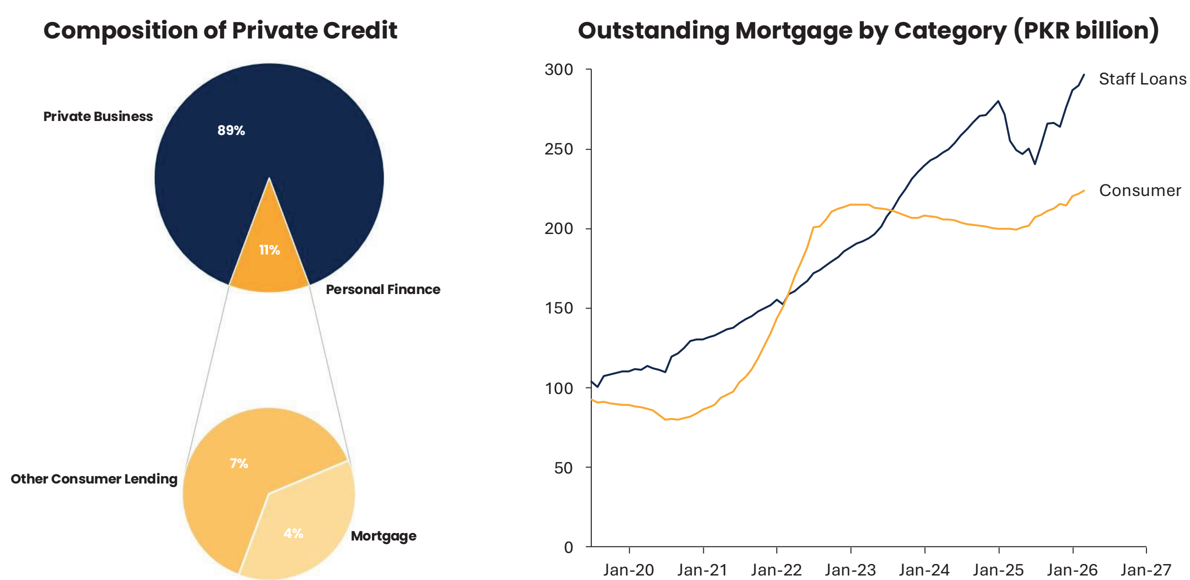
City	Avg Price/Sq Ft (PKR)	Increase Since COVID	Change (Past Year)
Karachi	25,430	95%	+30%
Lahore	21,000	96%	+2%
Islamabad	31,000	121%	-2%
Peshawar	21,500	105%	+19%

Source: Zameen.com Property Price Index, March 2020 to March 2026. Data represents upper-market listing prices.

The Mortgage Market Gap

Any demand-side intervention in Pakistan's housing market confronts structural barriers as the financing remains shallow not only by regional standards but have also deteriorated since 2000s. High appetite from the government has systematically diverted liquidity towards treasury and crowded out private sector credit, which stands at just 9.2% of the GDP. Within that constrained pool, personal finance comprises only 11% or PKR 1.4 trillion, of which PKR 507.2B trickles down to mortgages.[9]

Mortgage Credit: Small Pool, Skewed Allocation



Source: KSBL analysis based on SBP Loans by Borrowers Dataset

However, this figure substantially overstates the market's depth, for it clubs house loans to both consumers and bank employees. Historically, the latter has been a big driver of mortgage in Pakistan, with the segment serving as a major tool for the banking industry to attract talent. Hence, those amounts have little to do with the underlying risk dynamics or the financing ecosystem as such.

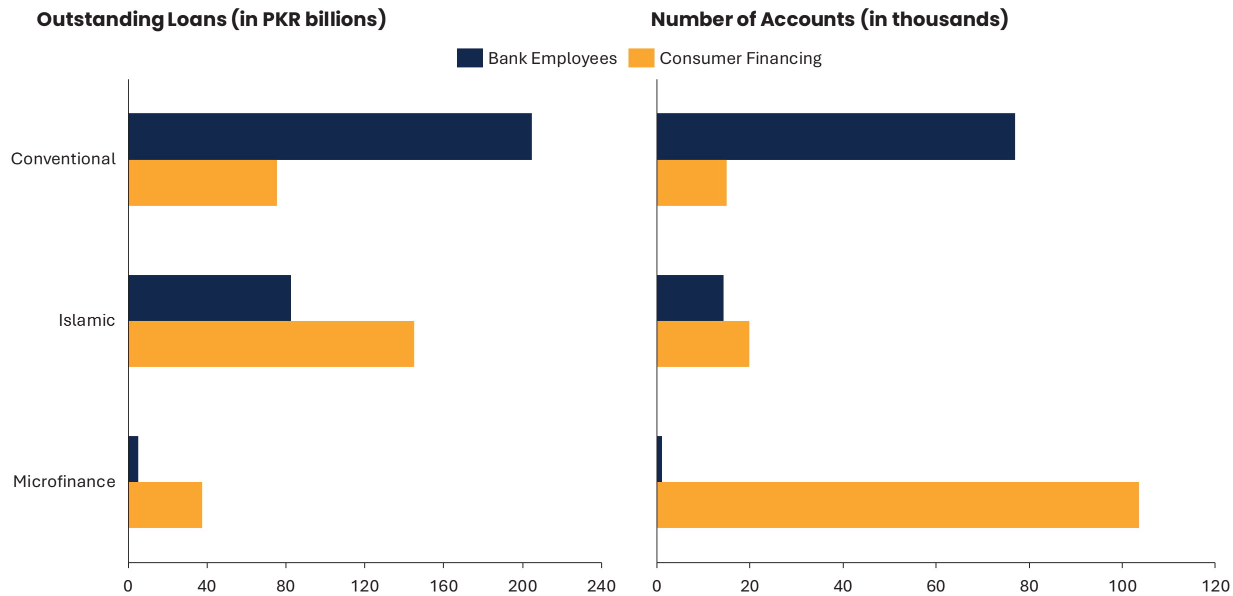
The disparity is quite evident. Since Jun-19, the first period for which granular data is available, bank employees have accounted for 54% of outstanding house loans on average and stood at almost PKR 297B as of February. On the other hand, the entire pool of customers across the country claims PKR 224B, highlighting the extremely lopsided nature of mortgage.

The one period in which consumer mortgages overtook staff loans, roughly February 2022 through June 2023, coincides with peak disbursements under Mera Pakistan Mera Ghar. Once the scheme was suspended and the pipeline of approved cases ran dry, staff loans reasserted dominance. Consumers only accessed housing finance at scale when offered stable, long-tenor rates that Pakistan's volatile rate environment otherwise does not provide.

Disbursement volumes paint an even bleaker picture: as of 2025 end, there were a total of 34,926 accounts with an outstanding mortgage facility out of the scheduled banking's more than 100M deposit holders. In stark contrast, the bank staff, which numbered 206,780 permanent employees, lay claim to 91,396 housing loans. That means around 70% of all Pakistanis with housing finance from a bank work at one and the trajectory doesn't seem to be changing. Between Jun-22 and Dec-25, consumer accounts with an outstanding mortgage facility have increased by a mere 6% i.e. a net increment of only 1,978. Over the same window, 18,805 new loans have been doled out to bank employees, translating into a 25.9% jump.

This phenomenon is particularly prevalent amongst conventional banks, as staff loans make up 73% of their outstanding mortgage amount and 83.7% of accounts. Comparatively, Islamic segment fares far better with corresponding shares of 36.2% and 41.9%. Meanwhile, microfinance stands in a company of its own, as around 88% of the PKR 42.7B housing portfolio is channeled towards over 103,000 consumers, a testament to their ability to reach masses unlike the legacy commercial institutions.

Mortgage concentrated in employees at conventional banks



Source: Scheduled Statistics of SBP | As of December 2025

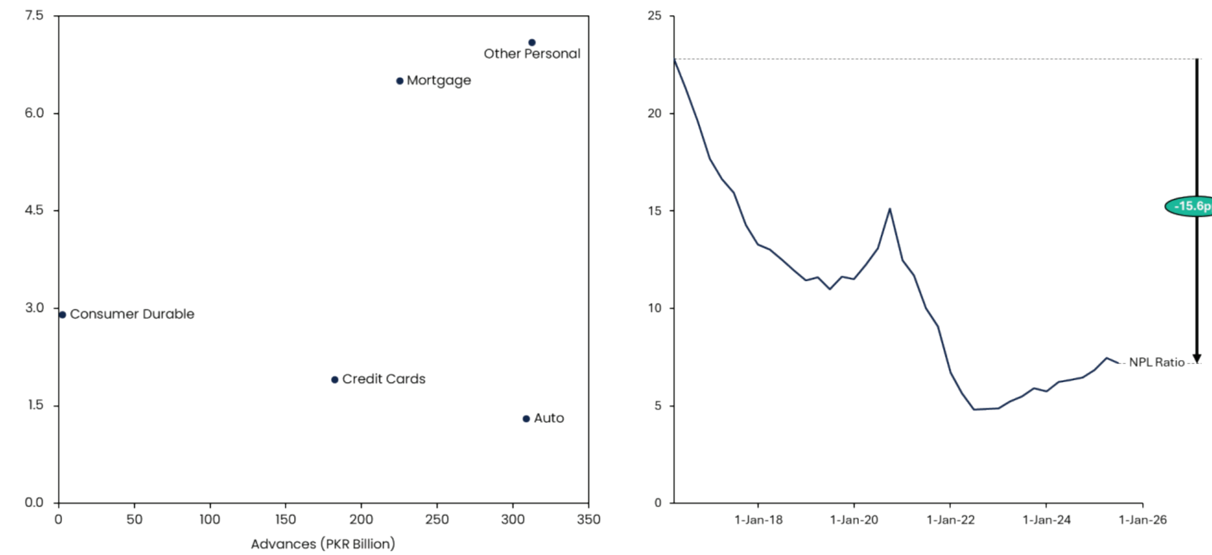
Multiple explanations exist as to why the housing segment remains highly underdeveloped. First, given the macroeconomic environment, especially the volatility prevailing since FY19 onwards, most liquidity in the financial system finds its way towards shorter tenors, even when the borrower is the sovereign. For house loans, this proves to be a critical bottleneck as the ticket sizes are quite large compared to other consumer categories. Therefore, underwriting needs to be done for longer terms, which naturally raises the segment's risk profile.

Moreover, Pakistan lacks the foreclosure mechanisms that are commonplace across other peer countries. India, Sri Lanka, Malaysia, Indonesia, and the Philippines all have Parate law provisions allowing financial institutions to seize and sell defaulted properties without prolonged court proceedings.[10] Without such legal safeguards, the banks face lengthy litigation, judicial interference, and unclear land titles that make recovery cumbersome and uncertain.

The numbers attest to that: mortgages represent less than a quarter of consumer lending yet account for a third of defaults (PKR 14.6B of PKR 44.4B). Its infection ratio, despite a drastic decline over the last decade, remains north of other major categories, reflecting the elevated risk characterized by informality in real estate markets, price volatility, and weak supply fundamentals.

Mortgage NPLs have fallen sharply but remain weakest link

NPL ratio vs. outstanding advances by consumer category **Mortgage NPL ratio (%), 2017 - 2026**



Source: Scheduled Statistics of SBP

Demand-Side Intervention

While options for low-income segments remain few and far between, most transactions happen either in cash or through developers' own instalment plans. To catalyze demand, the government has experimented with subsidized credit schemes.

The logic is straightforward: in a market where policy rates are high and unpredictable, housing finance only works if borrowers can plan around a fixed monthly payment that sits within rent-replacement territory. Long-term financing at stable rates has historically been unavailable in Pakistan, and that is what Mera Pakistan Mera Ghar set out to provide when it launched in October 2020.[11]

By fixing the markup over a long tenor and offering deeply subsidized rates, the scheme aimed to make monthly installments predictable and affordable. It operated across four tiers (T0-T3) with loan ranges from PKR 2 million to PKR 10 million, interest rates from 3% to 9%, and flexible bank spreads above KIBOR.

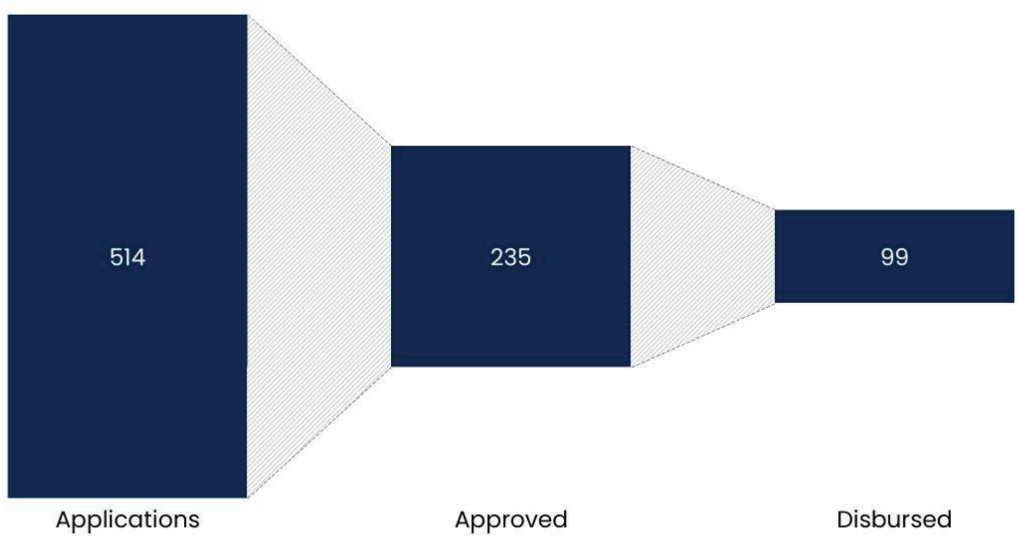
The scheme's failure reveals the depth of Pakistan's housing crisis: banks received Rs 514 billion in applications but approved only Rs 235 billion (46%). The low approval rate reflected both supply constraints and institutional barriers. Eligible low-cost housing units were scarce, while banks struggled to verify incomes for informal sector applicants who lacked traditional documentation.

Of approved loans, only Rs 99 billion were disbursed—42% of approved amounts, or just 19% of applications. The pattern is clear: demand exists, but the housing stock needed to absorb that demand does not.

The scheme was suspended in July 2022 as Pakistan's macroeconomic crisis intensified.[12] Rising interest rates widened the subsidy gap, while a new government showed limited enthusiasm for its predecessor's initiative. When relaunched in 2025 as Mera Ghar Mera Ashiana, the program started with a narrower scope: loans capped at Rs 3.5 million for properties up to 5 Marla or 1,360 square feet, with tiered rates of 5% and 8% for first-time buyers.[13]

Mera Pakistan Mera Ghar in Numbers

Amount in PKR billions



Source: State Bank of Pakistan

The scheme was subsequently expanded in March 2026 following Economic Coordination Committee amendments.[13] Loan caps rose to Rs 10 million, eligible properties expanded to 10 marla houses or 1,500 sq ft apartments, and the government simplified pricing to a uniform 5% end-user rate. Interest subsidies follow a three-party structure: banks charge KIBOR plus 3%, borrowers pay 5%, and the government covers the difference as a direct fiscal expenditure.

The revisions may address some utilization barriers from the original scheme. By raising loan limits to Rs 10 million, the program targets middle-class buyers where housing stock exists more readily than in the sub-Rs 3 million segment that proved elusive under the 2020 scheme.

Table 2: Evolution of Housing Finance Schemes

Feature	2020 Scheme	2025 Scheme	2026 ECC Amendments
Tiers	4 (T0-T3)	2	1
Loan Range	PKR 2M - PKR 10M	Up to PKR 3.5M	Up to PKR 10M
Unit Size Cap	Up to 10 Marla (Tier 3)	5 Marla / 1,360 sq. ft	Up to 10 Marla
Interest Rates	3% (T1) to 7-9% (T2-T3)	5% (T1), 8% (T2)	Uniform 5%
Bank Spread	Flexible above KIBOR	Fixed KIBOR + 3%	Fixed KIBOR + 3%

However, the scheme fails to address the urbanization-driven demand dynamics documented earlier. Its one-size-fits-all structure ignores vast regional price variations: in expensive urban centers such as Islamabad or Karachi, property prices often exceed what subsidized financing can realistically support, requiring substantial equity contributions even with expanded loan limits. Accessibility remains constrained where urbanization pressures are most acute.

More critically, despite expanded financing parameters, the scheme continues to operate purely on the demand side—subsidizing buyers without corresponding supply-side interventions to increase housing stock at scale. Without parallel programs addressing land availability, construction costs, or developer incentives for affordable units, demand subsidies risk simply inflating prices in supply-constrained markets.

The subsidy structure itself creates future stress: after 10 years of concessional rates, borrowers face another decade at market rates, potentially triggering defaults when banks' first-loss coverage expires. Combined with continued uncertainty about banks' institutional capacity to assess informal sector borrowers—a challenge unresolved since the previous scheme—Mera Ghar Mera Ashiana appears designed more as a cautious market nudge than a transformative intervention in Pakistan's housing crisis.

These revisions signal an attempt by policymakers to revive housing finance and stimulate construction activity, though their effectiveness will ultimately depend on whether supply constraints in urban housing markets are addressed.

The Rental Crisis

As urbanization accelerates and rural migrants flow into cities, those who retain land or family homes in their places of origin while seeking urban employment, or who lack capital to purchase in inflated urban markets, are forced into rental housing. Yet rental markets offer no escape from supply constraints—rental dynamics reveal the same fundamental shortage driving purchase prices, with additional distortions.

With effective mortgage subsidies, owning could become financially superior to renting on a net present value basis—borrowers build equity while renters extract no asset value from comparable monthly payments. However, demand-side financing schemes fail to help either renters or potential buyers when the underlying problem is insufficient housing stock. Without adequate supply, mortgage subsidies simply shift purchasing power without expanding access, while renters—excluded from these schemes entirely—face the same supply crunch with no pathway to ownership.

The scale and dynamics of rental markets vary significantly across Pakistan's major cities, revealing how different urban contexts respond to housing pressures. Islamabad and Karachi lead with 36% of listings as rentals, reflecting their role as migrant destinations. At PKR 126 and PKR 87 per square foot respectively, these cities command the highest rents, pricing out ownership while attracting those seeking temporary urban employment. Lahore shows lower rental prevalence at 20%, while Peshawar registers just 17%—suggesting that where urbanization is most recent and rapid (as our KP analysis showed), rental markets remain underdeveloped even as population pressures mount.

Rental appreciation since COVID reveals supply crunches. Islamabad leads with 121% rent increases, followed by Lahore at 68% and Karachi at 64%—far outpacing wage growth and forcing households into progressively smaller units or informal settlements. Peshawar's 30% increase appears moderate but likely reflects the nascent state of its formal rental market rather than adequate supply. The gap between rental and purchase price appreciation exposes market dysfunction: in

Islamabad, rents surged 121% matching purchase price growth, but in Karachi, rents increased 64% against 95% purchase price growth—suggesting landlords capture speculative gains while supply remains constrained. For newly urbanized households excluded from ownership and now facing rental markets squeezed by the same supply failures, housing security grows precarious.

Table 3: Rental Market Dynamics

City	Rent per Sq. Ft (PKR)	Increase Since COVID	% of Households Renting
Karachi	87	64%	36%
Lahore	76	68%	20%
Islamabad	126	121%	36%
Peshawar	57	30%	17%

Source: Zameen.com Rental Index, March 2020 to March 2026

What This Means for Housing

Pakistan's housing crisis stems from supply failure at multiple, reinforcing levels. Misclassification masks urban realities—industrial zones and high-density areas remain designated as rural, leaving them without the planning frameworks and resource allocation necessary to accommodate their populations. The formal sector faces land acquisition barriers, regulatory complexity, high construction costs, and limited financing. Together, these constraints prevent housing supply from emerging where demand is most acute.

Government interventions have consistently failed to overcome these barriers. Supply-side coordination through the Naya Pakistan Housing Program collapsed, delivering a fraction of its targets. Demand-side mortgage subsidies fared no better—the previous scheme revealed that banks couldn't disburse even approved loans because eligible housing simply didn't exist for purchase. Financing cannot create housing where construction remains constrained.

The latest scheme faces the same fundamental mismatch. Beyond design flaws—ignoring regional price variations, operating purely on demand without addressing supply—it confronts institutional barriers that prevent mortgage markets from scaling:

elevated default rates, absent foreclosure mechanisms, weak property rights. Banks retreat from housing finance as urbanization intensifies demand.

Market outcomes reflect these compounding failures. Property prices have surged far beyond wage growth, with the sharpest increases in cities where misclassification is most severe. Rental markets offer no escape—appreciation has forced households into progressively smaller units or informal settlements.

The aspirational homeownership that represents financial security and intergenerational wealth becomes unattainable where urban growth is fastest. The disconnect between actual urbanization and official classifications produces systematic underinvestment in housing supply where it's needed most. Without addressing fundamental constraints—proper classification to enable planning, regulatory reform, and institutional changes to enable mortgage scaling—Pakistan's housing crisis will continue to deepen.

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