

The Challenges of Expanding Saiban: Scaling Affordable Housing for Low-Income Communities in Pakistan

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April 2009

In December 2005, Acumen Fund invested \$302,500 in Saiban to launch a low-income housing development of 500 homes on 20 acres of private land located 20kms outside Lahore, Pakistan. Saiban is an internationally recognized organization that provides urban squatters with access to plots of developed land at affordable rates. The model provides secure residential tenure and public utilities in areas where squatters would normally have no access to legal property.

The Saiban approach directly addresses a severe livelihood challenge for the base of the pyramid (BoP)¹ income segment – those earning between Rs. 5,000 – 15,000 per month (\$2 to \$4 per day)². Saiban offers the possibility of legal entitlement to land, giving the poor an important piece of economic collateral - an asset for a population with no access to capital for economic growth.

The *Khuda Ki Basti-4* ('God's Own Settlement') housing development in Lahore, under the management of, Saiban, is a fledgling community located on a flat stretch of arid land a 40 minute drive from Lahore. *Khuda Ki Basti-4* (KKB-4) is a variation on the original *Khuda Ki Basti* model of incremental housing for the poor initiated by, Tasneem Siddiqui an entrepreneur and activist in Karachi. The *Khuda Ki Basti-4* Lahore model uses a more commercial approach than the original Karachi model. Under the supervision of former Acumen Fund Fellow and Saiban KKB-4 Project Manager, Jawad Aslam, this housing development is slowly transforming into a community that directly impacts the urban poor.

This paper describes an incremental housing development model that proves affordable housing to low income populations and how it is working towards expansion. By understanding the ingredients of an affordable housing model and defining what housing needs are at the base of the pyramid, this paper explains how one model has made housing accessible to the poor. The paper further shares key insights about how Saiban was able to expand its model into a new geography, draw lessons from its early successes, but also adapt its model to a new set of circumstances.

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Saiban site office at KKB-4

¹ An economic designation representing un or underserved markets; (sometimes defined as those earning less than \$4/day).

² Rs/US\$ exchange Rs 80 = US\$1.

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Specifically, the paper defines the two models, and then highlights some of the adaptations that were required to make the expansion into Lahore a success.

+ Saiban: incremental housing development

In the Saiban incremental housing development concept, each *Khuda Ki Basti* settlement typically offers 100 square yard plots of land to a family that has demonstrated need. About 75% of the residential plots of 100 sq yds are sold at a ‘no profit-no loss’ basis to low income families earning between \$2 to \$4 per day (Rs. 5,000 – 15,000 per month). The remaining 25% are reserved as ‘prime’ residential plots of 100 sq yds to be sold on the open market for profit – thereby creating a cross subsidy model that still serves the needs of the poor, but in a financially sustainable way. As the initial 75% of residential plots are developed, market price for the remaining 25% significantly increases, allowing Saiban to finance the project end-to-end for the intended income segment.

The Saiban model addresses another low income housing development challenge – developers plan and provide all residential plots with electricity, underground running water supply, underground sewerage lines and disposal services, as well as lay down access roads. Doing so ensures that residents do not face the same hardships as populations living in urban slums and squatter settlements. Saiban also facilitates essential social services like education, health care, and community centers.

The purpose of Acumen’s investment in the Saiban business model is to support a commercially-viable solution to address low-income housing needs that has significant potential for national scale. The model offers housing at affordable rates with a flexible payment schedule. Most importantly, to ensure that only the low-income target market is served, Saiban has an innovative filtering process that weeds out real estate speculators and middle-income groups from buying plots in *Khuda Ki Basti*. A family that purchases a plot must occupy the

land and build immediately or physically reside in the Saiban office reception area to demonstrate need. This imposition acts as a ‘first check’ to filter out real estate speculators who are often the first to apply for low-priced plots.³

Acumen’s investment has also facilitated partnerships in the housing finance community that allows *KKB-4* to go down-market and potentially become one of the first housing programs to offer mortgages to the base of the pyramid – a previously untapped market for housing finance services. Conventional financial institutions alone have not been able to address the need for low-income housing finance, primarily due to the need to have clean title as collateral. The Saiban model addresses this issue by providing legally obtained land, thereby acting as a bridge for the housing finance community to serve a new uncollateralized market.



A row of homes in Block A of KKB-4

In the *KKB-4* Lahore project, the Saiban model has gone one step further and, instead of simply providing empty plots of land, are offering basic built-up homes consisting of one room, a kitchen, a bathroom, and a boundary wall. These homes are being financed through a low income mortgage provider. At current market rates, a 100 sq yd plot of land costs US\$1,125 (Rs. 90,000) with the resident utilizing alternative financing methods for construction of his/her home (through savings, committees, micro-finance loans, or family assistance). The basic built up unit costs upto US\$2,500 (Rs.200,000). Additionally, *KKB-4* is built on a block-based system with a park at the center of each block, facilitating a more communal atmosphere.

³ “Housing for the Urban Poor,” Asad Azfar and Aun Rahman, Acumen Fund 2004.

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A primary school takes shape at KKB-4

Still, since the land purchase in 2006, Saiban has faced a number of challenges in getting the housing development off the ground. In dealing with government bureaucracies, it took six months to register the land and a full year to obtain scheme approval for the project. By August 2007, Jawad officially secured scheme approval, launched the project and began work on the access roads. After these numerous challenges, *KKB-4* now has 80 families living in the community and with an additional 60 in line to move in. In addition to this, there is a primary school, a dispensary, and a small commercial area that are all meeting the needs of the community.

+ Housing Market Challenges in Pakistan

As the phenomenon of rural-urban migration in Pakistan continues unchecked, Pakistan's urban centers face a chronic shortage of housing for the poor. The public

sector has been unable to address the growing demand for affordable housing – and as a result, many newly-arrived urban residents are forced to live in slums or *katchi abadis*. According to the most recently available statistics, about 50 percent of the urban population in Pakistan lives in slums and *katchi abadis*⁴, or informal settlements.⁵

In Lahore alone, there is a shortage of half a million housing units. How cities meet the exploding demand for urban housing, transportation and other social services has implications for the livability of these areas and for overall growth and development.⁶

As the demand for housing is on the rise, the supply of legal, clean title housing continues to be a major issue. A rapid increase in land prices, paired with speculation in real estate, has encouraged land grabbing by people developing informal settlements and accelerated the increase in the number of *katchi abadis*. There exist weak property rights as the land is often illegally grabbed and settled. The issue of affordability is also compounded by the fact that there are currently no financial products available for low income consumers that could facilitate home ownership. This is where the Saiban housing model provides an affordable, secure, and market-based solution.

THE SOLUTION

Saiban Affordable Housing Solution:

The Problem	Weak property rights and inefficiency of land titling and registration
Solution	Saiban offers secure, legal entitlement to the property and home ownership
The Problem	Lack of infrastructure (clean water, sanitation, electricity)
Solution	Saiban has a holistic approach to community development with physical infrastructure (sanitation, water, electricity, roads) and provision for essential services (health clinics and schools).

⁴ In the Punjab, over 35% of the urban population lives in slums and another 11.5% live in *katchi abadis* or informal settlements.

⁵ National Housing Policy 2001

⁶ Punjab Economic Report 2007-2008

Ingredients of an Affordable Housing Model

When understanding affordable housing development and low income market segments, it is necessary to step back and answer the question: what is considered affordable to the BoP? The target income segment customer who earns between US\$62 - US\$188 per month (Rs. 5,000 to 15,000 per month) cannot dream of affording a basic one to two bedroom housing unit in the formal housing market. In urban areas, households spend 40% of their monthly income on food and another 24% on rent - so the BoP population monthly rental payment is between US\$15 - US\$50 (Rs. 1,200 to Rs. 4,000). In the current formal housing market, a 100 square yard home can cost between US\$6,250 - US\$12,500 (Rs. 500,000 - 1,000,000) and this is with questionable land ownership and lack of basic amenities (sewerage, electricity, running water), which more or less qualifies it as a *katchi abadi*.

With the Saiban model, housing development land is sought at the periphery of urban centers to lower the per acre cost of land, then either 100 square yard plots of land can be sold to families for them to build themselves, or basic structure units are provided - all provisioning the cost of infrastructure (electricity, water, sewerage) into the cost of the land as well. A one room, basic built up unit with kitchen and bathroom can cost approximately US\$2,500 (Rs. 200,000). A two room or three room complete unit is also available between US\$3,125 - US\$5,625 (Rs 250,000 to Rs 450,000). While this is the lowest end of the spectrum when it comes to providing basic housing units with required infrastructure, construction, and amenities - the challenge of how to make this accessible in addition to affordable to the BoP still remains.

To bridge the financing gap for the intended income segment, Saiban entered into a mortgage provision arrangement with House Building Finance Corporation (HBFC), a semi-private housing finance facility in Pakistan. Depending on the type of housing unit a resident is purchasing (one room or two room), a person must make a down payment of US\$1,125 (Rs.90,000) to get a 10-year fixed rate mortgage at around 15% interest rate. Alternatively, people have the option to buy the land with some services, but have the responsibility of building their own homes.

One *Khuda Ki Basti-4* resident, Nisar Ahmed, is the first person in *KKB-4* to utilize the mortgage facility offered through HBFC. Nisar is among the first families to join Saiban's *KKB-4* in Lahore and has helped Saiban lay the groundwork for expansion.

Nisar came to *KKB-4* Lahore after working for 12 years in the Middle East as a central air conditioner installer and repairman. "The way I see it, I have been paying rent for 20 years, starting from Rs 200 to Rs 4,000 per month recently.



Nisar Sahib, wife, and daughter: the first HBFC loan recipients

After 20 years of paying for my home, I do not even own it! What other decision could I make than to move to *Khuda Ki Basti*?" He explains that now he owns the house he lives in and the land value will only appreciate over time. His belief in the Saiban model was so strong that he was hired on at *KKB-4* as their sales officer.

"One can't imagine that he will own a home in 10 or 20 years," Nisar says. When asked if the monthly payment of Rs 2,500 was too taxing on his income, he replies, "When I was paying Rs 4,000 previously for a rental, Rs 2,500 is manageable compared to that. And with rent, there is always the threat that you will be evicted."

Nisar is a strong example of the type of linkages Saiban has forged with the housing finance communities and highlights the potential for further impact.

Building a Community - Early Experiences and Challenges

In addition to addressing a severe affordable housing shortage and providing families with legal home ownership and socio-economic opportunities, Saiban views housing development from a holistic, community development approach. In *KKB-4*, people have come from as far as Karachi to buy land and build a home with legal title for the first time in their lives.

Still, in the housing market, individuals are making one of the most important decisions of their lives. For them, this involves leaving old neighborhoods, friends, and social networks, and investing their life savings for a down payment. There is also an increase in travel time and cost in commuting to work since *KKB-4* is located on the periphery of the city. In the local market, trust and relationship-building have proven to be the driving factor in bringing *KKB-4* sales. How is the Saiban team building the trust that allows families to move here? It is a formula they are still experimenting with and learning from.

Among the first residents of *KKB-4* are Mohammad Shafiq and his young wife Hena. This incredibly young, growing family took a risk and put their faith in the Saiban name - they are a family who will truly grow with the fledgling community.

Shafiq heard of Saiban from a relative in Karachi who lives in *Khuda Ki Basti-3*, the flagship site of the Saiban model. He felt that Saiban's was an established name and brand that could be trusted.



Mohammed and Hena Shafiq with children

Shafiq and Hena say the problem with living and renting in Lahore is that you have to change homes very frequently, as often as every year. There is no safety and security of your own space. Shafiq says he once renovated the interior of

their one-room rental and the landlady said, "Wow, this is now livable for my relatives." Shafiq's handiwork in his own house effectively had them evicted. There exists a sense of familiarity and trust in what Saiban has to offer - Shafiq knew Saiban was "no fraud" since his relative was already living in *Khuda Ki Basti-3* in Karachi.

At the same time, Saiban residents have substantial insights to share that could be helpful in shaping future development of low income housing communities. The distance from Lahore to *Khuda Ki Basti-4* can be a challenge, considering that Shafiq has a daily commute to Lahore to manage his shop. A comfort for him is knowing that his brother lives next door and can take care of the family on late nights. For Hena, the basic school system serving grades 1 through 6, is her main concern. At the moment, a rudimentary school, *Amal e Danish*, has been established. As Saiban grows into a full-scale housing development, families expect to see all formal social services and facilities available before they arrive, which is a challenge. Still, pioneering young families like Shafiq and Hena are willing to take the risk and are growing with the community.

The very first resident in Saiban's *Khuda Ki Basti-4*, Lahore, is Nazli Javed. Nazli moved to *Khuda Ki Basti-4* when it was nothing but a few homes with no electricity or running water. Before moving to *KKB-4*, Nazli lived in a small housing unit with her son and his family that was prone to routine sewerage overflows and flooding.

The mother of four says she started out as a teacher in a private school earning Rs200 per month. Nazli left her physically abusive husband and says, "What I have accomplished in leaving and surviving is of more value and more of an example of strength than staying and tolerating cruelty."

When asked why Nazli moved, she explains her old neighborhood in Lahore was in poor shape with narrow streets and overflowing sewage. "You know, when you spend the entire day outside working in the city - to come home and see overflowing gutters in front of your own home, it's distressing. But now when I come home, I see a palace."

Like Mohammad Shafiq, Nazli commutes into Lahore for work. She takes the morning train into the city center and



Nazli Javed: the first resident of KKB-4

returns home by bus, traversing the 40 minute (each way) commute on a daily basis. Nazli and Shafiq are among

the many in this growing community who will be regularly commuting to Lahore and are willing to go the distance for reliable, affordable housing.

There is also a previous familiarity with microfinance services for some residents of Saiban. Nazli accessed a small loan through First Women’s Bank to start a business from her home selling cosmetics and beauty supplies. “I would run the store in the evenings after work and on the weekends. Then on holidays I would also sell mix chat and it sold so fast!” This understanding of microfinance products may facilitate comfort in utilizing mortgage services. In addition, microfinance institutions that cater to the BoP may also provide a potential market for housing.

Key Business Insights: The Saiban Business Model in a New Market

Understanding the customer and the market should be the primary focus of any business model. This is no different for businesses catering to the needs of the low income markets. While accessibility and affordability are key defining pillars of the Saiban business model, acknowledging customer preferences in a new market and opportunity costs will ultimately determine the potential for scale.

One of the lessons learned when building and promoting Saiban in Lahore was the need to understand key differences in the two markets, and change the basic product design to reflect this. Karachi’s low income population faced a different level of need because of the extreme lack of services, while in Lahore, income levels were higher and hence the target market was different. Transplanting the model from even one city to another has

exhibited a need for change in the basic product design as well as how Saiban approaches marketing and branding. The advantage of the Saiban model is that it is flexible and can adapt to market demand while the principles of legally titled, affordable housing remain unchanged.

Key differences in the two markets have required a shift in the way Saiban addresses the demand for housing, product design, and marketing.

Most importantly for potential residents is the “seeing is believing” factor – once a tipping point of around 100 families is reached, there is an added trust that the housing development is here to stay and therefore, safe to invest in. Additionally, there is an advantage of having the established presence of Saiban in Karachi – people like Mohammad Shafiq and Nisar Ahmed have heard of *Khuda Ki Basti* and trust the brand.

MARKET DIFFERENCES

Khuda Ki Basti-3 – Karachi	Khuda Ki Basti-4 – Lahore
<ul style="list-style-type: none"> + Incremental housing (build-as-you-go) + Incremental services delivery (water, electricity, schools, health centers) + No provision of mortgages + Housing development built on public land 	<ul style="list-style-type: none"> + Basic structure homes strongly preferred + Infrastructure established simultaneously (water, electricity, sanitation, schools) + Mortgage facility offered + Housing development built on private land

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The Road Ahead

Acumen Fund and Saiban are gaining insights from the new residents of *Khuda Ki Basti-4* and the low-income housing market in Lahore. Jawad – *KKB-4*'s manager – has set a goal of reaching 500 families with the development. As each day progresses, he learns how BoP customers respond to the product and adjusts his business strategy – a necessary skill to have when focusing on marketing and customer preferences. As with previous investments, Acumen Fund has observed that low-income customers, regardless of a lack of resources, are willing to pay for things they value and desire high quality products. *KKB-4* residents required more construction amenities than their Karachi counterparts, in part because there is a difference in the severity of housing shortage and number of slums between Karachi and Lahore. And most importantly, as Saiban has observed, BoP customers require trust in their business interactions.

Saiban's biggest hurdle is brand building in a new city – as well as navigating the various government interactions required when building a housing development. Corruption and red tape are typical when trying to obtain scheme approvals and building access roads. In addition, the approach of customers in the housing market here requires creating a paradigm shift in the minds of customers when it comes to real estate investment habits. Individuals in the real estate market (rich or poor) are accustomed to purchasing a plot and leaving it vacant for a period of time. Moving to the new house immediately – a Saiban requirement – is not desirable. Nevertheless, the inspiration remains: this is the first time a land development scheme serving the BoP has been approved in the district and the community is steadily growing.

Khuda Ki Basti-4 has tremendous potential to impact people's lives. In Karachi, *KKB3* experienced similar challenges in its initial stages – families were reluctant to move to the *basti* (settlement) because of the long commute and location. But now, *KKB3* is a community of 20,000 residents with its own economy – 40-50% of the people are employed within the *basti*. There are also full-scale social

services available along with retail stores to accommodate a growing population, ranging from a video rental shop to an arcade.



KKB-4: a sustainable community in development

The innovations developed by Saiban across two very distinct markets have shown that scaling up is not only about replicating success, but also about adapting and learning based on the divergent needs and characteristics of different markets. We believe that Saiban as an institution will continue to serve as a catalyst for the broader affordable housing community within Pakistan and will inform new thinking and new approaches to affordable housing development across the country.

Acumen Fund is a 501(c)3 social venture fund that invests in enterprises that offer access to critical, affordable products and services to the poor through scalable, market oriented approaches. Our investments currently focus on four key areas: water, health, housing, and energy.

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