

**LUMS**Chaudhry Nazar Muhammad
Department of Economics

INCLUSIVE GROWTH OR DISPLACEMENT?

EVIDENCE FROM UPZONING POLICIES IN LAHORE, PAKISTAN

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This policy brief is based on research that evaluates the impact of the 2020 upzoning policy (which allowed vertical development) on house prices and socioeconomic characteristics in Lahore. By using quasi-experimental techniques and multiple geo-referenced data sources, the study finds causal evidence that the 2020 upzoning policy reform led to a significant increase in property prices, as well as gentrification in the upzoned neighborhoods. After the policy change, upzoned areas experienced a marked shift in their composition i.e. an increase in the concentration of higher-income, more educated, and literate residents. These results align with the broader literature on the impact of upzoning policies; highlighting gentrification as an unintended consequence. There are, thus, important policy implications for housing affordability and the design of complementary public infrastructure to support upzoning reforms.

Authors

Syed M. Hasan, Adeel Tariq, Rabia Saeed, Abubakar Memon





INTRODUCTION and BACKGROUND

- 🏠 Lahore has a population of around 13 million and is the second most populous city of Pakistan. Pakistan is a rapidly urbanizing country¹ and faces typical urbanization challenges.
- 🏠 Urbanization in Lahore has been rapid, but sprawling - often characterized as 'messy and hidden'. It has grown more on the periphery (i.e. horizontally) due to land affordability and not in the centre (i.e. vertically).
- 🏠 Lahore, in addition, also struggles with issues of incoming internal migrants, majority of whom work in elementary occupations, low-tech services, and sales and trade sectors.
- 🏠 For the last several years, Lahore has become the most polluted city in the world. Thus, environmental degradation is also a significant consequence of the city's increasing spatial footprint.

The 2020 Upzoning Policy

01

Prior to 2020, stringent land use regulations practically restrained high density vertical development, primarily due to concerns about supporting infrastructure.

02

The 2020 policy change (initiated by Lahore Development Authority (LDA), and followed by other cities) was aimed at improving urban density by allowing vertical development.

03

Essentially, building codes were amended to enable the development of low-, medium-, and high-rise multi-storey buildings. Most of the changes were incorporated in the category of residential apartments.

Housing affordability in Lahore, historically, has suffered for numerous reasons:

- 🏠 The leapfrog pattern of development of peri-urban land
- 🏠 Relatively low occupancy in developed housing societies
- 🏠 Widespread land and real estate speculation
- 🏠 Transformation of peripheral and agricultural areas
- 🏠 Displacement of local communities while benefiting the upper-middle classes through land speculation



Together, these factors have inflated house prices, creating a housing affordability crisis. Interestingly, policy prescriptions, as long as a decade ago had also recommended switching vertical development, because of increasing concerns around degrading environmental conditions and ensuing housing affordability crisis.

About the Research

To study the impact of 2020 upzoning policy on property prices and labor market variables, the research employs difference-in-differences (DiD) framework.

- 01 It exploits geographic variation in the incidence of upzoning to estimate causal effects by comparing outcomes in upzoned areas with outcomes in non-upzoned areas in Lahore.
- 02 Datasets comprise of geo- referenced data on (i) house prices, (ii) high-rise projects (that were initiated only after announcement of upzoning policy), (iii) roads network (to identify potential projects on eligible roads as a result of policy change), (iv) socioeconomic/labor market outcomes from Labor Force Surveys, and (v) a spatial map of Lahore with circle (an administrative unit) level boundaries. Final dataset consists of 63,964 properties and 18,929 individuals.
- 03 Treatment is defined based on two conditions: (i) buffer around an already implemented or forthcoming high-rise project, and (ii) buffer on each side of upzoning-eligible roads. The comparison group comprises areas identified using the road network data and their corresponding widths as being ineligible for upzoning.
- 04 The impact of upzoning on gentrification is estimated by using the proportion of treated houses in a census circle to identify treatment and comparison circles.
- 05 Different model specifications¹ are used to rigorously evaluate the impact and check the robustness of estimates. Parallel trends² are established graphically and empirically by using available data prior to the policy announcement.



FINDINGS

The main findings of the research are:

House Prices:

- 🏠 House prices in upzoned areas are higher: the estimated effect ranges from **8.41 – 12.2** percent.

Employment:

- 🏠 There is no significant impact on the probability of working, but the nature of work and earnings of individuals in upzoned areas reveal interesting insights.
- 🏠 Individuals in the upzoned areas are likely to earn **15-17** percent more monthly wages on average, and approximately **8.8 - 11.7** percentage points more likely to be working as a manager or a professional, relative to individuals in non-upzoned areas.
- 🏠 Similarly, the likelihood of an individual in the upzoned area working in the tertiary sector is higher by **8 - 9.87** percentage points, and they also have a higher likelihood of being employed in retail, accommodation, information, transport and administration sectors, compared to the manufacturing and construction sectors.

Education:

- 🏠 Individuals residing in upzoned areas are approximately 7.2 percentage points more likely to be literate, and 9.2 percentage points more likely to have high educational attainment¹ relative to individuals in non-upzoned areas.

The results show that upzoned areas in Lahore have higher property prices and experience gentrification in the form of increase in literacy, high educational attainment, higher earnings, greater probability of working as professionals or managers, and working in the tertiary sector. The finding that there is no impact of upzoning on the probability of working, coupled with other findings reveal a shift in the socio economic composition of the residents of upzoned areas, indicating gentrification rather than improved housing affordability.



POLICY IMPLICATIONS

The objective of the research was to provide evidence on whether zoning reforms have improved housing affordability in Lahore. In addition to contributing new empirical evidence from a developing country megacity, it offers clear policy insights:

The main finding that house prices in upzoned areas are higher has implications for housing affordability. The type of new construction that takes place is especially important to understand the direction of price changes. In Lahore, post policy new construction seems to be driven more by private developers, targeted towards the rich by positioning it as offering luxurious living, with high-end and top-notch facilities like pools, gyms etc. Thus, **direct interventions actively aimed at improving housing affordability** for middle and lower income groups are a better tool. One possible way is adoption of **inclusionary zoning regulations** that require developers to dedicate a certain proportion of new buildings as low cost or affordable housing. This may offset the exclusionary effects of upzoning policy.

01

Upzoning reforms are also linked with certain other aspects of city design. Denser places support more economic activity like retail, and promote environmentally friendly practices like switching to public transportation, walking or cycling. However, to fully realize these benefits, **complementary investments in city infrastructure like safe transport systems and pedestrian networks** will also be required in future.

02

Similarly, since the design of upzoned buildings are in sharp contrast to traditional houses especially in Lahore, that had their own and private open spaces, the **need for shared green spaces like parks and recreational areas** will increase multifold in future and require proactive planning and policy support.

03

Going forward, higher density areas place additional pressure on water and sewage supplies as well as traffic infrastructure, requiring **services infrastructure upgrades**.

04

If exclusionary consequences of upzoning deepen and outweigh its benefits, the favorable policy impact would reverse: entrenching existing inequalities by making the upzoned areas more out of reach of new migrants and majority of the residents. More careful and inclusionary policy design that incorporates affordability mandates and complements with infrastructure investments—is therefore essential to ensure more inclusive urban growth.



A Publication prepared by
Rabia Saeed (Research Fellow)

Department of Economics, Lahore University of Management Sciences

For information or collaboration,
please reach out at rabia.saeed@lums.edu.pk

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