

# NEPAL REAL ESTATE MARKET

## A Decade in Review

2014 – 2026

Structural, Regulatory, and Macroeconomic Dynamics

Compiled from: *Structural, Regulatory, and Macroeconomic Dynamics of Nepal's Real Estate Market: A Decade in Review (2014–2024)*

All in-text citation numbers are hyperlinked to their original source documents.

### PHASE I - Structural Foundations of the Boom

2014 – 2021 · 2071 – 2078 BS

2071–2077 BS · 2014–2020 AD ◆ STRUCTURAL DRIVER

#### Hyper-Urbanization & Mass Internal Migration Reshape Nepal's Land Demand

Nepal underwent a profound demographic and spatial redistribution, with populations mass-migrating from Hill and Mountain ecosystems into the fertile Terai plains and heavily concentrated urban valley centers.<sup>[1]</sup>

National Population and Housing Census data (2011–2021) confirmed this dramatic shift.<sup>[8][10]</sup> **Bagmati Province** - encompassing the Kathmandu Valley - reached **56.2% urbanization**. The Kathmandu Valley itself reached **91.7% urbanization** - functionally hyper-urbanized.<sup>[1]</sup>

Metropolitan centres (Kathmandu, Lalitpur, Pokhara) and rapidly emerging Terai hubs (Bharatpur, Birgunj, Dhangadhi) experienced severe, localised land scarcity. Internal migrants converged on these nodes, driven by push factors of limited rural opportunities and pull factors of superior employment, healthcare, and educational infrastructure.<sup>[10]</sup>

Infrastructure expansion - road networks, highways, and Ring Road expansion in the Kathmandu Valley - acted as a powerful **speculative catalyst**: investors aggressively purchased cheap agricultural land along projected infrastructure corridors, anticipating massive valuation spikes upon road paving or utility connections.<sup>[1]</sup>

#### IMPACT

- **Severe, localised land scarcity** in major cities; extreme spatial imbalances in real estate demand
- **Relentless, unregulated fragmentation of peri-urban agricultural land** to meet housing demand - eroding the agricultural base<sup>[11]</sup>
- Artificial inflation of per-square-metre valuations in suburban areas

2071–2081 BS · 2014–2024 AD (Ongoing) ◆ MACROECONOMIC

## Sustained Remittance Inflows - The Single Most Significant Macroeconomic Driver of the Boom

Nepal consistently ranks among the highest remittance-receiving nations globally relative to GDP. Remittances historically account for between **24% and 28.2% of GDP**.<sup>[12]</sup> Over the last ten years, official remittance volumes grew at an impressive **annualized rate of approximately 10%** - a critical macroeconomic stabilizer, primary engine for poverty reduction, and the bedrock of the nation's foreign exchange reserves.<sup>[13]</sup>

The transmission mechanism operates through a highly pronounced **"wealth effect."** Surplus capital from migrant workers - primarily in GCC countries, Malaysia, and India - is overwhelmingly funnelled into real estate and land purchases.<sup>[14][15]</sup> Academic studies confirm the implicit application of the **Lewisian theory of unlimited labour supply**: repatriated capital systematically inflates domestic asset prices - particularly land - back in home districts.<sup>[13]</sup>

This continuous injection of diaspora capital effectively **decoupled urban and peri-urban land prices from domestic wage growth** and local industrial productivity metrics, sparking concerns of a localised Dutch Disease where the influx of foreign capital renders non-tradable sectors (like real estate) hyper-inflated.<sup>[16][65]</sup>

### ECONOMIC THEORY: DUTCH DISEASE RISK

**Dutch Disease Mechanism:** The valuation of Nepal's real estate became a derivative of foreign labour market dynamics rather than internal economic output. As overseas wages drove remittance inflows, domestic land prices inflated independently of local productivity - a classic symptom of Dutch Disease in a non-tradable sector.<sup>[16][65]</sup>

### IMPACT

- Sustained, highly inelastic demand for real estate throughout the decade
- Urban and peri-urban land prices entirely decoupled from local wages and industrial productivity
- Market made uniquely vulnerable to external shocks in overseas labour markets

2071–2077 BS · 2014–2020 AD    ♦ **STRUCTURAL DRIVER**

## Speculative Investment Behaviour & Cognitive Biases Transform Land Into a Financial Instrument

Academic content analysis of investor behaviour in Nepal reveals the market was heavily driven by **cognitive dissonance, illusion of control, extreme over-optimism, and a powerful herd instinct**.<sup>[17][18]</sup> Because real estate had historically generated outsized, often untaxed or severely under-taxed returns over twenty years, a deep-seated psychological consensus emerged that land prices "only go up."

This herd mentality transformed land from a utility-based asset into a **purely speculative financial instrument**. Investors routinely engaged in "flipping" land: informal syndicates would purchase large, undivided tracts of agricultural land, use heavy machinery for rudimentary clearing and levelling, rapidly subdivide the land into smaller marketable plots, and resell to the middle class.<sup>[19]</sup> The market was driven predominantly by **hard cash, informal lending, and undocumented wealth** - rather than formalised mortgage leverage.

### IMPACT

- Massive artificial demand generated by speculative cycling - land moved between speculators before ever reaching an end-user
- Affordability crisis for genuine homebuyers seeking to construct homes

- Localised asset bubble driven predominantly by informal and undocumented capital
- Exacerbated the gap between speculative and utility-based land valuation

2071–2077 BS · 2014–2020 AD    ◆ **STRUCTURAL DRIVER**

## **Vacuum of Alternative Investment Channels - NEPSE Dysfunction & Capital Account Restrictions Funnel Savings Into Land**

The Nepal Stock Exchange (NEPSE) is characterised by extreme volatility, limited sectoral diversification, and a regulatory framework that often struggles to maintain investor confidence.<sup>[20]</sup> NEPSE is overwhelmingly dominated by commercial banks, development banks, microfinance institutions, and hydropower companies - offering investors very little exposure to real, manufacturing, or technology sectors.<sup>[21]</sup>

NEPSE frequently trades at highly inflated P/E and P/B multiples difficult to justify based on underlying corporate fundamentals or ROE metrics. By April 2026, NEPSE was trading at **38 times earnings** - among the world's most expensive stock markets.<sup>[20]</sup>

Strict **capital account restrictions** legally prevented Nepalese citizens from investing in international equity markets or foreign real estate.<sup>[22]</sup> The result: domestic savings had *"nowhere to go except the stock market, real estate, or gold."* Because real estate offered higher perceived security, physical tangibility, and a convenient mechanism to absorb informal wealth - including capital from parallel economies or illegal Hundi remittance transfers - it **systematically cannibalized capital** that might otherwise have been directed toward productive investments.<sup>[19]</sup>

### **IMPACT**

**The real estate boom was as much a symptom of a lack of viable financial alternatives as it was a testament to the desirability of land itself.** Capital that could have driven industrial or entrepreneurial investment was absorbed entirely by the land market.

2076 BS · 2019 AD    ◆ **REGULATORY / LEGAL**

## **Land Use Act 2076 Enacted - Legal Framework Mandating Land Classification Across All 753 Local Governments**

The Land Use Act 2076 was passed with the intent to curb rampant fragmentation of arable land and ensure long-term national food security. It mandated all **753 local governments** - metropolitan cities, sub-metropolitan cities, municipalities, and rural municipalities - to classify land within their jurisdictions into **ten distinct, legally binding zones**:<sup>[4]</sup>

- Agricultural, Residential, Commercial, Industrial, Area of Mines and Minerals, Forest, Public Use, Area of Cultural and Archaeological Importance, Riverine, and Others

### **IMPACT**

The Act set in motion the legal architecture for the **most disruptive single policy event** in Nepal's real estate history. Sound in intent, it would become catastrophic in execution upon the 2022 implementation of the Land Use Regulation 2079 - because it attached enforcement teeth (the kitta kat ban) to an administrative process that local governments were wholly unprepared to execute.

## PHASE II - The Historic Peak

FY 2021/22 · 2078/79 BS

2078/79 BS · FY 2021/22 AD ◆ MARKET DATA

### HISTORIC MARKET PEAK - Land Transaction Volumes and Government Revenue Reach All-Time Highs

A decade of remittance-fuelled growth, hyper-urbanisation, speculative behaviour, and lack of alternative investment channels culminated in an unprecedented apex. Land transaction volumes and gross registered values reached historic maximums.<sup>[241]</sup>

#### KEY DATA

- Total Land Deeds Processed: ~745,000
- Land Plots Created (Kitta Kat): 1,612,000
- Government Revenue from Real Estate: **Rs. 57.66 Billion**
- Market Status: Historic Market Peak

#### IMPACT

Set the benchmark against which all subsequent contraction would be measured. The peak also set inflated price expectations in sellers' minds - creating the **"lock-in effect"** that would amplify the subsequent stall: sellers anchored to 2021 prices refused to discount, even as buyers could no longer afford those prices.

## PHASE III - The Great Contraction: Macroeconomic & Financial Shocks

2021 – 2024 · 2078–2081 BS

2078–2079 BS · Post-COVID 2021–2022 AD ◆ FINANCIAL / BANKING

### Severe Macroeconomic Shock: BoP Deficit, Foreign Exchange Reserve Depletion & Aggressive NRB Monetary Tightening

A massive post-COVID-19 surge in imports created a critical **Balance of Payments (BoP) deficit** and a rapid depletion of Nepal's foreign exchange reserves. To defend the currency, stabilise reserves, and combat rising inflation, the NRB was forced to aggressively tighten monetary policy.<sup>[241]</sup>

The NRB orchestrated a deliberate contraction of domestic liquidity, frequently utilising deposit collection instruments to **mop up tens of billions of rupees** from the banking system.<sup>[25]</sup> This elevated interbank lending rates, which translated into significantly higher base rates for all commercial and development banks.

Average consumer price inflation climbed: **food and beverage inflation reached 4.69%** and **non-food and services inflation hit 3.71%** in the 2024/25 period.<sup>[42]</sup> Credit-to-Deposit (CD) ratios hovered precariously near regulatory limits across the banking sector.<sup>[27]</sup>

**IMPACT**

- Financial viability of real estate development collapsed - higher interest rates crippled large-scale developers relying on institutional financing<sup>[26]</sup>
- Retail homebuyers discouraged from acquiring standard residential mortgages
- Vacant land (which generates no immediate cash flows) was the first to suffer severe liquidity crunches

2079/80–2080/81 BS · FY 2022/23–2023/24 AD ◆ **MACROECONOMIC****Post-COVID Economic Stagnation, Political Instability & the "Lock-In Effect" Freeze Transaction Velocity**

Nepal's real GDP growth plummeted to a highly subdued **1.98% in FY 2022/23**, before a modest and fragile recovery to an estimated **3.9%–4.61%** in subsequent years.<sup>[28]</sup> This was compounded by a highly unstable political landscape: youth-led unrest, frequent government coalition changes, systemic concerns about public sector corruption, and delayed capital expenditure.<sup>[22]</sup>

A critical behavioural phenomenon amplified the stall: the **psychological "lock-in effect."** Unlike equity markets that gap down in price immediately during a crisis, real estate markets tend to **freeze in volume before they drop in price.**<sup>[30]</sup> Property owners - anchored to the historic 2021 peak prices - refused to sell at lower, market-clearing valuations. Buyers could not afford asking prices; sellers refused to discount. The market froze.

**KEY DATA**

- **Real GDP Growth FY 2022/23:** 1.98% (highly subdued)
- **Estimated GDP Growth FY 2023/24–2024/25:** 3.9%–4.61%

2080/81 BS · FY 2023/24 AD ◆ **MACROECONOMIC****The Remittance Utility Paradox - Record Nominal Inflows, Zero Market Impact: The Historic Correlation Breaks Down**

A historically unprecedented divergence occurred in FY 2023/24. While gross nominal remittance inflows reached **nine-year record highs** - driven by record-high outward labour migration - real estate transactions simultaneously hit historic lows.<sup>[29]</sup>

The cause of this decoupling: **domestic inflation.** A significantly larger percentage of repatriated capital was immediately absorbed by **basic household consumption, essential goods, healthcare, and debt servicing.** The surplus financial margin that families traditionally allocated for discretionary, speculative land purchases narrowed significantly.<sup>[29][12]</sup>

**ANALYTICAL FINDING: INVERSE CORRELATION**

The report ranks this as a case of **inverse correlation** (not causation) in the market deceleration. Capital was consumed by "survival economics," preventing it from being pooled for speculative land acquisition - a complete reversal of the pre-2020 dynamic. The absolute dollar amount entering the country increased; the proportion available for property investment diminished.<sup>[29]</sup>

## PHASE IV - The Regulatory Assault: Legal Interventions That Paralyzed the Market

2022 – 2025 · 2079–2082 BS

Late 2079 BS · Late 2022 AD - PRIMARY CAUSE OF MARKET COLLAPSE ◆ REGULATORY / LEGAL

### WARNING: PRIMARY CAUSE OF MARKET COLLAPSE - Land Use Regulation 2079: The "Kitta Kat Ban" Halts Plotting in 620+ Municipalities

The Land Use Regulation 2079 **explicitly and strictly prohibited** commercial plotting (kitta kat) and the subsequent sale of land in any area unless officially classified and gazetted by the local government as "Residential" or "Commercial."<sup>[4]</sup>

**Strict minimum lot sizes** were instituted to prevent micro-fragmentation:<sup>[31]</sup>

- Residential land: minimum **80 square metres**
- Agricultural land in Kathmandu Valley: minimum **500 square metres**
- Agricultural land in Terai and Inner Madhesh: minimum **675 square metres**

**The Administrative Catastrophe:** Local governments were given a strict **six-month deadline** to complete this highly complex classification process. However, the vast majority entirely lacked: technical capacity, GIS mapping resources, trained cadastral personnel, and local political consensus. Land administration and subdivision were **completely halted by the federal government in over 620 municipalities.**<sup>[32]</sup> Because landowners could not legally subdivide their property to sell, **the supply of tradable real estate evaporated overnight.**

#### KEY DATA

- Transaction volumes slumped by **nearly 50% nationwide** within the first quarter of implementation<sup>[4]</sup>
- Land plots created collapsed by **60%**: from 1,612,000 (FY 2078/79) to only **285,000 plots** (FY 2079/80)<sup>[2]</sup>
- Government revenue fell by **29% year-over-year**: Rs. 57.66B → Rs. 41.15B<sup>[2]</sup>
- By mid-2024, approximately **500 municipalities** had still failed to completely classify their land<sup>[31]</sup>

#### ANALYTICAL VERDICT

**Ranked #1 - Primary Causation.** The empirical evidence designates this as the absolute primary and immediate cause of the market collapse - a severe supply-side shock engineered entirely by administrative bottlenecks and lack of local government capacity. **Not a natural market correction.** The data proves a direct, instantaneous causal link between the federal prohibition and the 50% drop in national transactions.<sup>[63]</sup>

2079/80 BS · FY 2022/23 AD ◆ MARKET DATA

### Annual Market Data: Policy Contraction Confirmed - Deeds, Plots, and Revenue All Collapse

Full-year data for FY 2079/80 confirms the devastating and immediate impact of the Land Use Regulation enforcement.<sup>[2]</sup>

**KEY DATA**

- **Total Land Deeds Processed:** ~463,000 (vs ~745,000 prior year - a ~38% decline)
- **Land Plots Created (Kitta Kat): 285,000** (vs 1,612,000 - an 82% collapse)
- **Government Revenue:** Rs. 41.15 Billion (vs Rs. 57.66B - a 29% decline)
- **Market Status:** Policy Contraction (Land Use Regulations)

2079–2081 BS · 2022–2024 AD ◆ **FINANCIAL / BANKING****NRB Macroprudential Tightening #1 - DTI Capped at 70% & LTV Heavily Restricted**

To rapidly deleverage the banking sector and rein in speculative bubbles, the NRB introduced a highly restrictive suite of macroprudential policies:<sup>[3]</sup>

- **DTI Cap at 70%:** Maximum Debt-to-Income ratio for loans granted specifically for the purchase or construction of residential houses and land
- **LTV Restriction:** For personal loans with unspecified purposes (historically used as backdoor funding for speculative real estate), the Loan-to-Value ratio was heavily restricted - recently adjusted from 40% to 50% to inject minor liquidity, but still requires buyers to hold massive amounts of upfront cash

**IMPACT**

Made financial leverage for real estate purchase **mathematically impossible** for the average Nepalese citizen. Even buyers who found an eligible plot (bypassing the kitta kat ban) could not access mortgage capital at viable terms - a massive demand-side shock amplifying the supply-side destruction.

**ANALYTICAL VERDICT**

**Ranked #2 - Secondary Causation.** Acting as a massive amplifier to the supply shock. The NRB's tightening made speculative real estate financing structurally impossible alongside the kitta kat ban.<sup>[3]</sup>

2079–2081 BS · 2022–2024 AD ◆ **FINANCIAL / BANKING****NRB Macroprudential Tightening #2 - Punitive Risk Weight Revisions Force Banks to Hold More Capital Against Real Estate Loans**

The NRB increased the **risk weights** assigned to real estate loans, margin lending, and hire-purchase loans.<sup>[3]</sup> This critical accounting change forced commercial banks to hold significantly more capital in reserve against their real estate exposures, making these loans **inherently more expensive and less profitable** for banks to originate.

**IMPACT**

Actively discouraged financial institutions from extending credit to property developers - **starving the sector of institutional capital**. Created a vicious cycle: higher risk weights → banks hold more capital

per loan → less willingness to lend → developers cut off from finance → reduced construction → reduced supply → deepened the housing crisis.

2079–2081 BS · 2022–2024 AD ◆ FINANCIAL / BANKING

## NRB Macroprudential Tightening #3 - Rigorous Source of Income Verification Locks Out Nepal's Informal Economy from Mortgage Access

NRB supervisory directives required banks to strictly enforce **verification of borrower income**.<sup>[36]</sup> Previously, banks frequently relied on highly inflated, unverified self-declarations of income by borrowers to justify massive mortgages. The new regulatory demand required "*valid documents substantiating the income*" - such as verified tax returns and audited financial statements.

### IMPACT

Severely restricted the borrowing capacity of individuals operating within Nepal's massive informal economy - **instantaneously removing thousands of potential buyers from the demand pool**. Many Nepalese workers earn through informal channels producing no verifiable documentation, effectively locking them out of the formal mortgage market entirely.

Mid-2081 BS · Mid-2024 AD ◆ FINANCIAL / BANKING

## NRB Reveals: 89.98% of All Commercial Bank Loans Backed by Property Collateral - Systemic Risk Exposed

By mid-2024, NRB data revealed that a staggering **89.98% of all total loans issued by commercial banks were backed by property collateral** - exposing extreme systemic concentration risk in Nepal's banking sector.<sup>[35]</sup>

Despite the transaction freeze and tighter LTV/DTI caps, real estate loan portfolios continued to grow aggressively. Per the NRB's own analytical reports: "*lack of direct linkage to market activity suggests that loan disbursements reflect long-term structural shifts in financing practices rather than immediate demand spikes*."<sup>[59]</sup> This implies property owners leveraging illiquid real estate assets to generate working capital to survive the broader economic downturn - not healthy new acquisition activity.

### KEY DATA

- **89.98%** of all commercial bank loans backed by property collateral (mid-2024)<sup>[35]</sup>
- **Real Estate Loans: +72.41% growth** → Rs. 275.96 Billion outstanding<sup>[59]</sup>
- **Residential Housing Loans: +61.55% growth** → Rs. 417.61 Billion outstanding<sup>[59]</sup>

### IMPACT

**Revealed extreme fragility of Nepal's banking sector.** Loan growth masked deeper structural stress rather than healthy new acquisition. A significant property price correction could trigger cascading bank failures across the system - forcing the NRB to accelerate macroprudential interventions.

Ongoing Throughout Decade · 2014–2025 AD ◆ TAXATION

## Punitive Capital Gains Tax & High Registration Fees Create Massive Transaction Friction and Incentivize Value Underreporting

The federal government maintained a rigid **Capital Gains Tax (CGT) structure** specifically designed to penalise short-term speculation:<sup>[40]</sup>

- **5% CGT** on profit from properties held for **less than 5 years**
- **2.5% CGT** on profit from properties held for **more than 5 years**

Provincial governments - heavily reliant on real estate registration fees as their primary revenue - largely **refused to lower transaction costs** even as the market crashed.<sup>[41]</sup> In Bagmati Province - encompassing the highest-value real estate in Nepal - steep, punitive ad-valorem registration fees applied:<sup>[43]</sup>

- **5%** of total transaction amount in Metropolitan areas
- **4.5%** in Sub-Metropolitan areas
- **4%** in standard Municipalities

Finance Act 2081/82 introduced targeted rebates: 50% discounts for land purchased for agricultural or IT industries; specific exemptions for women, senior citizens, and marginalised groups. However, the **baseline taxation matrix remained highly punitive** for standard residential and commercial property transfers.<sup>[44]</sup>

### IMPACT

- Encouraged market participants to halt trading OR **systematically lie about transaction values** to evade taxes
- Contributed to a massive "**Valuation Gap**" between Thaili (declared) value at land revenue offices and actual cash-exchanged market prices<sup>[62]</sup>
- Starved the government of billions of rupees in legitimate tax revenue while simultaneously incentivising the opacity that AML laws were trying to eliminate

2080 BS · 2023 AD ◆ REGULATORY / LEGAL

## First Amendment to Land Use Regulation 2079 - Deadline Extension Granted; Administrative Bottleneck Persists

Recognising the catastrophic failure of local bodies to complete classification within the original 6-month deadline, the federal government issued the **first amendment** granting deadline extensions.<sup>[32]</sup> However, the administrative bottleneck persisted - municipalities still lacked GIS resources, trained cadastral personnel, and political consensus to complete classification.

### IMPACT

Temporary relief but no fundamental resolution. The extension bought time but did not provide the technical capacity municipalities needed. A political response to an administrative failure, not a structural solution. Market remained largely frozen.

Poush 2080 BS · December 2023 AD ◆ JUDICIAL

## Supreme Court Joint Bench Orders Additional 20-Metre Riverbank Setback - Total 40-Metre Buffer Zone Throws Kathmandu Market Into Chaos

A joint bench of the Supreme Court issued a sweeping **mandamus order mandating an additional 20-metre setback** (buffer zone) along the banks of the Bagmati River and its numerous tributaries within the Kathmandu Valley.<sup>[48]</sup> This was in addition to the existing 20-metre standard established by the Cabinet in 2008 - effectively creating a massive total of **40 metres on either side of rivers as absolute "no-construction zones."**<sup>[50]</sup>

The ruling instantly threatened to **criminalise thousands of existing, previously legal residential structures**, halted all pending municipal map approvals, and raised the prospect of displacing millions of urban residents.<sup>[48][51]</sup> Recognising the fiscal impossibility of paying constitutionally mandated land acquisition compensation for such a vast swath of prime urban real estate, the federal government filed a **review petition through the Attorney General's Office.**<sup>[50]</sup>

### IMPACT

- Property valuations and transactions along all riverine corridors in Kathmandu Valley **completely frozen**
- Legal uncertainty paralysed buyers and developers across all riverside areas<sup>[52]</sup>
- All pending municipal building map approvals halted
- Illustrated how sudden judicial decrees create a "highly volatile and unpredictable legal environment for land investors and developers"

2080/81 BS · FY 2023/24 AD ◆ MARKET DATA

## Annual Market Data: Severe Stagnation - Market Officially Described as "Frozen"

Full-year data for FY 2080/81 confirmed the market remained deeply suppressed despite a slight recovery in deed volume.<sup>[58][1]</sup>

### KEY DATA

- **Total Land Deeds Processed:** 538,128
- **Government Revenue from Real Estate:** Rs. 49.04 Billion
- **Market Status:** Severe Stagnation ("Market Frozen")
- Annual supply of formalised housing units in Kathmandu Valley historically well below the required **24,547 units/year** to meet demographic demand<sup>[61]</sup>

Ongoing - Pre-Late 2025 AD · Ongoing - Pre-2082 BS ◆ REGULATORY / LEGAL

## Institutional Land Ceiling Restrictions Strand Over Rs. 200 Billion in Housing Developer Capital, Stalling Urban Development

Under previous iterations of the Land Act, real estate developers, housing companies, and corporate institutions were **strictly barred from holding land beyond a prescribed limit**. Even if companies utilised legal loopholes to acquire land, the law restricted them from legally transferring or selling individual housing units or apartments built on that excess land to retail buyers.<sup>[45][46]</sup>

According to the **Nepal Land and Housing Developers Federation (NLHDF)**, properties worth over **Rs. 200 Billion** were left completely idle and unsellable due to these archaic ceiling restrictions.<sup>[47]</sup>

#### IMPACT

Prevented the formalisation and scaling of Nepal's organised housing development sector. Kept institutional capital completely frozen. Deepened the affordable housing supply crisis at precisely the moment when the market needed new supply most urgently.

Jestha 2081 BS · May 2024 AD ◆ JUDICIAL

### Supreme Court Bans Distribution of National Park & Forest Land - Blocks Politically Motivated Land Titling for Landless

The Supreme Court strictly decreed that the federal government could not distribute land situated within **national parks and forest areas** to landless individuals or squatters. This ruling strictly enforced the provisions of the Forest Act and effectively crippled politically motivated efforts to formally title encroached public lands.<sup>[53]</sup>

The Court had also previously ordered the revocation of the government's highly controversial decision to dissolve the Land Commission - highlighting intense judicial oversight of all land distribution mechanisms.<sup>[54][55]</sup>

#### IMPACT

Protected Nepal's ecological domain from encroachment but left the squatter and landless issue politically unresolved. Established environmental conservation as a supreme judicial priority above political expediency and development ambitions.

Bhadra 2081 BS · August 2024 AD ◆ REGULATORY / LEGAL

### Second Amendment to Land Use Regulation - Another Deadline Extension; ~500 Municipalities Still Unclassified

The federal government issued the **second amendment** in August 2024, granting yet another deadline extension for land classification. Despite this, approximately **500 municipalities had still failed to completely classify their land** - keeping the majority of the nation's real estate market in a state of indefinite, legally mandated suspension.<sup>[31][32]</sup>

#### IMPACT

Confirmed that the administrative failure was **structural and systemic**, not temporary. The pattern of repeated extensions without technical capacity-building demonstrated governmental inability to resolve the root cause. A third, more drastic intervention would ultimately be required.

Baseline: FY 2020/21 | Ongoing · Baseline: 2077/78 BS | Ongoing ◆ FINANCIAL / BANKING

## NRB Initiates Residential Real Estate Price Index (RREPI) to Combat Systemic Valuation Opacity and the "Valuation Gap"

To combat systemic opacity in Nepal's high-demand, low-supply real estate environment, the NRB initiated the **Residential Real Estate Price Index (RREPI)** using FY 2020/21 as a baseline.<sup>[62]</sup> Regional data reveals distinct geographic dynamics: Madhesh Province consistently leads in total transaction volume (primarily large agricultural plots >20 aana); Bagmati Province commands the highest absolute declared monetary value.<sup>[1]</sup>

**The Critical Valuation Gap:** Due to punitive capital gains taxes and steep registration fees, buyers and sellers routinely conspire to drastically **underreport the transaction value at the Land Revenue Office** - the "Thaili amount." The NRB explicitly noted that official records **severely underreport** the actual market clearing prices at which cash changes hands.<sup>[62]</sup> This obfuscation: (1) obscures true macroeconomic wealth held by citizens; (2) complicates commercial banks' ability to accurately mark their vast collateral portfolios to market; (3) starves the government of billions in legitimate tax revenue.

## PHASE V - AML Pressure, Judicial Activism & The Path to Recovery

2025 – 2026 · 2081–2082 BS

Early 2081/82 BS · Early 2025 AD ◆ **AML / COMPLIANCE**

### FATF Places Nepal on "Grey List" - Explicitly Cites Inadequate Regulation of Cooperatives and Real Estate

The Financial Action Task Force (FATF) - the global money laundering and terrorist financing watchdog - placed Nepal on its **Grey List (Jurisdictions under Increased Monitoring)** in early 2025, following a rigorous mutual evaluation.<sup>[37]</sup>

FATF explicitly cited strategic deficiencies in Nepal's AML/CFT framework, **specifically calling out cooperatives and real estate by name** as grossly inadequately regulated, monitored, and supervised high-risk sectors.<sup>[6][37]</sup> Nepal's real estate sector had historically served as an opaque, lightly regulated sink for illicit wealth, tax evasion, and informal capital.

#### IMPACT

- Forced the GoN, NRB, and DoLMA to implement drastic, immediate AML directives
- Risk of devastating international financial sanctions that would have severely crippled Nepal's ability to attract FDI and maintain correspondent banking relationships globally
- Created further transactional friction in the real estate market as compliance requirements rapidly intensified

#### ANALYTICAL VERDICT

**Ranked #4 - Contextual Friction.** Did not singularly cause the market crash but established a permanent, heavy layer of transactional friction. Represents **"a necessary growing pain in the formalisation of the Nepalese economy."**

2081/82 BS · 2025 AD ◆ **AML / COMPLIANCE**

## AML Directives: Real Estate Agents Classified as DNFBPs; NPR 10 Million CDD Threshold Triggers Mandatory KYC for All Large Transactions

To respond to FATF Grey List placement:<sup>[37][6]</sup>

- Real estate agents and brokers formally brought under the regulatory umbrella of **Designated Non-Financial Businesses and Professions (DNFBPs)**
- Strict **Customer Due Diligence (CDD)** and **Know Your Customer (KYC)** requirements applied to sale and purchase of any house or land valued at **NPR 10 million (~USD 75,000) or more**
- Mandatory rigorous tracing of the legitimate **"source of funds,"** monitoring for "property-purification," verification of Permanent Account Numbers (PAN), and filing of **Suspicious Transaction Reports (STRs)**<sup>[38]</sup>

**Perverse Market Response:** High-net-worth investors either withdrew capital entirely OR **artificially undervalued their property deeds further** at land revenue offices - keeping declared Thaili amounts below NPR 10 million to bypass CDD scrutiny. This **exacerbated the very lack of market transparency** the FATF laws were designed to eliminate.<sup>[6]</sup>

### IMPACT

Immediate chilling effect. Massive procedural friction injected into a market previously characterised by easy, anonymous cash transfers. While absolutely necessary for international compliance and long-term market health, the directives created a painful but necessary transition from an opaque informal system to a formally regulated one.

Magh 2081 BS · January 2025 AD    ♦ JUDICIAL

## Constitutional Bench Strikes Down Government Law Allowing Commercial Real Estate & Luxury Hotels in Protected Areas

The constitutional bench struck down a controversial 2024 government law that had attempted to systematically **rezone "highly sensitive" protected areas** to allow for the construction of commercial real estate, luxury hotels, and large-scale infrastructure such as cable cars.<sup>[56]</sup>

### IMPACT

- Firmly established a **legal frontier against commercial real estate expansion** in ecologically sensitive regions
- Definitively capped the supply of developable land in protected areas, countering government attempts to open new development corridors
- Frustrated the investment plans of developers who had anticipated the rezoning law's passage

Late 2081/Early 2082 BS · Late 2024/Early 2025 AD    ♦ RECOVERY / REFORM

## MAJOR TURNING POINT - Third Amendment Admits Administrative Defeat: Kitta Kat Ban Temporarily Lifted Across All Municipalities Until Mid-July 2026

After two failed deadline extensions and persistent administrative failure across over 500 municipalities, the government passed the **Third Amendment** - essentially admitting administrative defeat by **temporarily lifting the strict classification requirement** and allowing plotting to resume across all municipalities until mid-July

2026.<sup>[32]</sup> This was a political stopgap - not a structural solution - but it allowed the market to **tentatively breathe again** for the first time since late 2022.

#### KEY DATA

- **Q4 FY 2081/82: 114,769 transactions in a single quarter** - directly correlating with this policy reversal<sup>[59]</sup>
- Government Revenue: approximately **Rs. 15 Billion quarterly average**<sup>[1]</sup>
- **Definitively proves** that the primary driver of the stall was an administrative bottleneck, not a complete lack of organic market demand<sup>[42]</sup>

#### IMPACT - POSITIVE

Immediate market rebound on pent-up demand. However, permanent market stability and legal certainty still require finalised, digitised, and publicly accessible zoning maps. The third amendment merely delays the problem until mid-July 2026 - without resolving the underlying administrative incapacity of local governments.<sup>[32]</sup>

Q4 FY 2081/82 BS · Q4 FY 2024/25 AD ◆ MARKET DATA

### Annual Market Data: Nascent Policy-Driven Recovery - 114,769 Transactions in One Quarter Confirms Suppressed Organic Demand

The sharp Q4 uptick provided definitive empirical proof that organic demand was suppressed - not absent - throughout the stall period.<sup>[59][42]</sup>

#### KEY DATA

- **Transactions (Q4 FY 2081/82, single quarter): 114,769**
- **Government Revenue:** Rs. 15 Billion (quarterly average)
- **Market Status:** Nascent Policy-Driven Recovery
- **Construction sector's share of GDP:** approximately 6.5% nationally<sup>[60]</sup>
- **Annual formal housing supply in Kathmandu Valley:** historically well below the required 24,547 units/year<sup>[61]</sup>
- **Madhesh Province:** consistently leads in transaction volume and area; **Bagmati Province:** highest declared monetary value<sup>[1]</sup>

Ashadh 2082 BS · June 2025 AD ◆ JUDICIAL

### Supreme Court: All Land Policy & Infrastructure Must Comply with ILO Convention 169 and UNDRIP - FPIC Required from Indigenous Peoples

The Supreme Court ruled that all tiers of government must ensure future land policies and infrastructure programs comply with **ILO Convention 169** and the **U.N. Declaration on the Rights of Indigenous Peoples (UNDRIP)**.<sup>[57]</sup> This crucially requires developers and the state to obtain **Free, Prior and Informed Consent (FPIC)** from Indigenous peoples before initiating any projects that affect their traditional lands.

**IMPACT**

- Added a mandatory, complex consent process significantly increasing time and procedural complexity of land development projects in indigenous areas
- Together with the January 2025 protected area ruling, established a firm, unyielding legal frontier against commercial real estate expansion in ecologically and culturally sensitive regions
- While celebrated by conservationists and human rights advocates, these combined rulings definitively cap the supply of developable land across much of Nepal's natural and cultural heritage landscape

Late 2082 BS · Late 2025 AD ◆ **RECOVERY / REFORM**

## **STRUCTURAL REFORM - Ninth Amendment to Land-Related Ordinance: Land Ceiling Removed for Housing Developers, Unlocking Rs. 200+ Billion in Stranded Capital**

Recognising the immense economic damage of freezing over Rs. 200 Billion in institutional capital, the government passed the **Ninth Amendment to the Land-Related Ordinance** in late 2025. This pivotal amendment formally:<sup>[45][46]</sup>

- **Removed the land ceiling restrictions** for legitimate housing developers
- Permitted the **legal sale and ownership transfer** of residential units that had been stranded by archaic ceiling regulations<sup>[47]</sup>

**IMPACT - POSITIVE**

This structural legal reform is **widely anticipated to be a major, necessary catalyst** for the long-term revival of large-scale, formalised organised housing development in Nepal. Unlocking Rs. 200+ Billion in previously stranded capital could significantly increase the supply of formal housing units - directly alleviating spatial imbalances in the Kathmandu Valley where annual supply has historically been well below the required 24,547 units.<sup>[22]</sup>

Magh 2082 BS · January 2026 AD ◆ **RECOVERY / REFORM**

## **Supreme Court Full Bench Overturns December 2023 Riverbank Ruling - Scraps Additional 20-Metre Setback as "Inconsistent with Law and Justice," Restores 2008 Standard**

Following intense public backlash, legal maneuvering, and the government's review petition through the Attorney General's Office, a **full bench of the Supreme Court** intervened in January 2026.<sup>[51][49]</sup> The full bench ruled that the additional 20-metre requirement was *"inconsistent with law and justice,"* thereby:<sup>[50]</sup>

- **Scrapping the new 20-metre restriction** added in December 2023
- **Restoring the original 2008 20-metre standard**
- **Reinstating crucial legal clarity** to thousands of riverbank property owners

**IMPACT - POSITIVE**

- Restored legal certainty to riverside property markets in the Kathmandu Valley
- Removed the threat of retroactive criminalisation of thousands of previously legal structures
- Allowed municipal map approvals that had been halted since December 2023 to resume
- Provided a significant positive shock to market confidence in riverine corridors

**DECADE AT A GLANCE - Annual Market Data Summary**

Fiscal Year (BS / AD)	Total Deeds	Plots Created (Kitta Kat)	Govt Revenue (NPR)	Market Status
2078/79 (2021/22)	~745,000	1,612,000	Rs. 57.66 Billion	Historic Peak
2079/80 (2022/23)	~463,000	285,000	Rs. 41.15 Billion	Policy Contraction
2080/81 (2023/24)	538,128	-	Rs. 49.04 Billion	Severe Stagnation
Q4 FY 2081/82 (2024/25)	114,769 (single qtr)	-	Rs. 15B (qtrly avg)	Nascent Recovery

Sources: [\[21\]](#)[\[158\]](#)[\[59\]](#)

**CAUSATION VS. CORRELATION - Ranked Factors of Market Deceleration**

<b>#1</b>	<p><b>PRIMARY CAUSATION - Regulatory Paralysis (Land Use Regulation 2079)</b></p> <p>The botched kitta kat ban caused a direct, instantaneous 50% drop in national transactions - a severe supply-side shock engineered entirely by administrative bottlenecking, not any shift in consumer demand.<a href="#">[63]</a></p>
<b>#2</b>	<p><b>SECONDARY CAUSATION - Liquidity Depletion &amp; Cost of Capital (NRB Tightening)</b></p> <p>DTI cap at 70%, elevated interbank rates, and strict income verification made financial leverage mathematically impossible for the average Nepalese citizen - a massive demand-side shock amplifying the supply shock.<a href="#">[3]</a></p>
<b>#3</b>	<p><b>INVERSE CORRELATION - Remittance Growth vs. Market Stagnation</b></p> <p>Record nominal remittances (9-year high) coincided with historic transaction lows. Capital consumed by domestic inflation and survival economics, preventing speculative land acquisition for the first time in a decade.<a href="#">[29]</a></p>
<b>#4</b>	<p><b>CONTEXTUAL FRICTION - AML Compliance &amp; FATF Pressure</b></p> <p>Did not singularly cause the crash but established a permanent, heavy layer of transactional friction. A necessary growing pain in the formalization of the Nepalese economy.<a href="#">[61]</a><a href="#">[37]</a></p>

**STRATEGIC POLICY RECOMMENDATIONS FOR MARKET REVIVAL**

1. Accelerate, Subsidize & Digitize Local Land Classification

The GoN must provide emergency, centralised technical assistance - specifically fully funded GIS and cadastral mapping teams - to the remaining municipalities that have failed to classify their land under the Land Use Act 2076.<sup>[32]</sup> The third amendment's temporary lifting is a political stopgap; permanent market stability requires finalised, digitised, and publicly accessible zoning maps.<sup>[32]</sup>

## 2. Fully Operationalize the Real Estate Price Index (RREPI)

The NRB must aggressively deploy and legitimise the RREPI to forcefully close the massive Valuation Gap between Thaili (declared) value and actual cash-exchanged market value.<sup>[62]</sup> A reliable, government-backed index will allow banks to accurately assess collateral risk, enable revenue authorities to capture billions in lost CGT, and remove the financial incentive for systemic underreporting.

## 3. Rationalize Registration Fees to Broaden the Tax Base

Provincial governments - particularly Bagmati - should aggressively lower their punitive ad-valorem registration fees (currently 4%–5%).<sup>[43][41]</sup> Applying the Laffer Curve principle: a significantly lower, flat fee structure coupled with strict AML enforcement would dramatically increase formal transaction volume, yielding higher aggregate net revenue for the state despite lower per-transaction rates.

## 4. Harmonize Judicial Rulings & Executive Action via Clear Environmental Legislation

The immense market volatility from sudden Supreme Court riverbank rulings underscores a critical failure of the legislative branch to provide clear environmental frameworks. The GoN must proactively enact codified, generously compensated land-acquisition laws that definitively protect ecologically sensitive areas without subjecting private property owners to sudden, retroactive, and uncompensated asset destruction through judicial fiat.<sup>[50]</sup>

## 5. Channel Migrant Remittances into Productive, Institutional Real Estate

Rather than allowing billions in remittances to inflate the price of raw, unproductive land, the government and NRB should launch structured, legally protected **Real Estate Investment Trusts (REITs)** or sovereign diaspora-targeted housing bonds.<sup>[64]</sup> This would channel foreign capital into organised construction of affordable, high-density urban housing - directly alleviating spatial imbalances in the Kathmandu Valley - while providing overseas remitters with a formalised, regulated return on investment.

*This timeline was compiled from: Structural, Regulatory, and Macroeconomic Dynamics of Nepal's Real Estate Market: A Decade in Review (2014–2024). All citation numbers in the text are hyperlinked to their original source documents. Data sourced from NRB, CBS Nepal Population Census, World Bank, DoLMA, and major Nepali financial publications.*