

Affordable Housing in India

Key Initiatives for Inclusive Housing for All

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I am happy to understand that ICC is organizing 3rd Edition of India Real Estate Summit in New Delhi with key focus on mass housing and “housing for all by 2022 mission”.

The Indian real estate sector has been an important growth driver to our economy for the last two decades. The industry started its journey by focusing to construct upscale to mid –budget housing primarily in the metropolitan and Tier I cities. As urbanization became the fancy of an average Indian the sector started focusing on building ultra luxury housing, shopping complexes, theme parks, entertainment zones amongst others. With the passage of time the dynamics of the sector started changing and the focus started shifting towards tier II cities. That had virtually laid the foundation stone for Mass Housing Project.

It is indeed a giant stride taken by the current union government to launch “Housing for all by 2022 Mission”, so that every fellow citizen has a roof over his head. Indian Private sector has to be equally responsible for ensuring the practical realization of the same.

ICC as a national institution would endeavour to bring all the concerned stakeholders so that we can aide Government as well as Indian Private Sector play a meaningful role in making India a land of “Sustainable Development”.

I wish the summit all success.

Introduction

India, the third largest developing economy in the Asia enjoys a unique position. The present government with its focus on business and growth for the nation is keen to undertake reforms critical for reviving growth. As India gears itself towards sustained growth; the real estate sector's significance becomes an area of key importance. Rapid urbanisation and growing occupier demand are key factors expected to drive real estate demand in the nation.

The population of India was 1.2 billion in 2011 and there has been an addition of 180 million in the previous decade¹. During 2001-11, perhaps for the first time in Indian history, the urban population actually grew more than the rural population. Part of this change in population dynamics is because undoubtedly more than 2,500 settlements that were defined as villages in 2001 were reclassified as towns in 2011. Rapid urbanisation is also perceived as a significant contributor to demographic shift.

The country's urban population has grown at a compound annual growth rate (CAGR) of 2.8% over 2001-11, resulting in an increase in the urbanisation rate from 27.8% to 31.2%². Out of India's population of 1.21 billion, 377 million people are urban dwellers and with more than 10 million people being added to urban areas every year, India's urban population is expected to reach about 600 million by 2031³. Furthermore, over 2015-31, the pace of urbanisation is likely to increase at a CAGR of 2.1% - double than that of China.

Migration is the key process driving urbanisation. The influx of population into urban areas is stimulated by the attraction of cities for their employment opportunities; better standard of living, better educational facilities, infrastructure, need for status, etc. And with growth in sophisticated technology coupled with better infrastructure, communication and medical facilities, people feel that they can lead a comfortable life in the cities

Disordered urbanisation is reflected in almost 65.5 million Indians who, according to the country's 2011 Census, live in urban slums⁴. In addition, according to the World Bank's Agglomeration Index, a globally applicable alternative measure of urban concentration, the share of India's population living in areas with urban-like features in 2010 was 55.3 percent. This compares to an official urban share of the population of just over 31 percent, suggesting the existence of considerable hidden urbanisation⁵. Messy urbanisation is reflected in the widespread existence of slums and sprawl. Sprawl, in turn, helps give rise to hidden urbanisation, particularly on the peripheries of major cities, which is not captured by official statistics. Messy and hidden urbanisation is symptomatic of the failure to adequately address congestion constraints that arise from the pressure of urban populations on infrastructure, basic services, land, housing, and the environment.

Given this scenario, it becomes critical to fill the existing gaps in the country's strained urban infrastructure and in particular, housing. In this context, it would be important to address the need in the EWS (economically weaker sections) and LIG (lower income groups), which currently account for 95.6% percent⁶ of urban housing shortage in the country. Amid the growth of urbanisation, the housing shortage in India has touched 18.78 million units⁷. 56% of households in urban India now have four or less members. This is a marked change from 10 years ago, when the median household size in urban India was between four and five members and would increase the demand for housing in the urban context with the growth of smaller families.



¹Census of India, 2011

²United Nation Projections, 2015

³Report by Task Force on Promoting Affordable Housing, Ministry of Housing and Urban Poverty Alleviation, 2012

⁴Census of India, 2011

⁵'Leveraging Urbanisation in South Asia: Managing Spatial Transformation for Prosperity and Livability', World Bank

⁶Economic Survey of India

⁷The Report on Trend and Progress of Housing in India – 2013, NHB



Interestingly, it is to be noted that while India's households increased by 60 million between 2001 and 2011, the number of houses went up by almost 81 million over the same period. Despite this, the latest official Economic Survey states that there is a shortage of nearly 20 million homes in India. One reason for this is that most builders are catering only to the middle income and affluent population in India and home prices have gone beyond the reach of many.

While the supply side constraints for low cost and affordable housing include lack of availability of land and finance at reasonable rates, the demand drivers include the growing middle class and urbanisation. Real estate developers, private players in particular, have primarily targeted luxury, high-end and upper-mid housing segment owing to the higher returns that can be gained from such projects. In addition, several structural issues, such as the high gestation period of housing projects, limited and expensive capital, spiralling land and construction costs, high fees and taxes as well as unfavourable development norms are bottlenecks restricting the desired growth in housing stock in India.

The government recognising this need has acknowledged the importance of the housing issue in the country. The Planning Commission of India's Twelfth Plan delineates fast paced, inclusive and sustainable growth. Urbanisation should be guided towards inclusive and equitable growth of towns and cities with proper civic amenities. The key would be to focus efforts towards land and housing policy reforms, delegation of power to urban local bodies, fostering innovative housing finance and steps for reduction in project costs and schedule overruns. Planned urbanisation would ensure that towns and cities are free from slums and provide for adequate opportunities for productive employment and an optimum quality of life to all their inhabitants including the marginalised segments of the society.

Definition of Affordable Housing

It is firstly important to delineate the contours of this topic by defining the term “affordable housing”.

There is no clear-cut definition of the term “affordable”, as it is a relative concept. Even, “affordability” as a concept is very generic and could have different meanings for different people of differences in income levels.

Different agencies and countries have defined “affordable housing” as the economic potential of an individual to buy a house. In the US⁸ and Canada⁹, a commonly accepted guideline for affordable housing is that the cost of housing should not be more than 30% of a household’s annual income, including taxes and insurance for owners and utility costs⁹. If for a home, the monthly carrying costs that include not only the loan repayment, but also other factors including property taxes, payments of basic utilities such as water, electricity, cooking fuel etc. and basic services such as internet, cable, etc. exceed 30-35% of monthly household income, the housing could be considered unaffordable for that household. However, this figure provides only a base of housing affordability; the definition of affordability varies according to a household’s individual circumstances.

Even in India, the Reserve Bank of India (RBI) had tweaked the affordable housing definition in July 2014. According to RBI the cost of a house now could be INR 6.5 million and INR 5 million in the metros¹⁰ and non-metros, respectively, to be qualified as affordable housing. The

RBI also said that it will periodically review the definition of affordable housing, on account of inflation.

As a result, the universal definition of affordable housing is hard to come by. For instance, the task force on promoting Affordable Housing of MHUPA has defined affordable housing as - “Affordable housing refers to any housing that meets some form of affordability criterion, which could be income level of the family, size of the dwelling unit or affordability in terms of EMI size or ratio of house price to annual income”¹¹. While the first two parameters are independent of each other, the third is a dependent parameter that can be correlated to income and property prices. Income levels help in differentiating among people with expenditure potential, the size of units assist in maintaining a minimum level of liveable space.

Another important facet of the affordable housing definition is that all of them ideate a universal definition across the vast country of India. The country does not only have urban areas of different stature, but also the income levels are different across the country. The prominent developer in Indian affordable housing context, Value and Budget Housing Corporation (VBHC) offers 1 BHK units under INR 1.6 million in Bengaluru and INR 1.8 million in Vasind (Mumbai), while the location of Mumbai project is 40 minutes’ drive from Thane. The definition of affordable housing varies from place to place whereas it may vary for different projects in the city also.

DEFINITION OF AFFORDABLE HOUSING- MHUPA 2012

Income Categories	Size	Income Criteria	Affordability
EWS	<ul style="list-style-type: none"> 21-27 sqm of carpet area EWS maximum area could be between 25.2 and 30.8 sqm if subsidies are tied to them 	The maximum Household Income for the EWS and LIG category are recommended to be INR 8,000 and INR 16,000 per month and since many households in this category do not have regular monthly income an annual income of INR 100,000 for EWS and INR 200,000/- for LIG households could also be used	The Task Force recommends that the desirable goal of a house price to income multiple that should be pursued for Affordable Housing projects should be 5
LIG	<ul style="list-style-type: none"> 28-40 sqm of carpet area maximum area for LIG could be between 36.9 and 45.1 sqm if subsidies are tied to them 		
MIG	<ul style="list-style-type: none"> 41-60 sqm of carpet area 		

Source: Task force on Promoting Affordable Housing, MHUPA, 2012

⁸US Department of Housing and Urban Development (<http://portal.hud.gov>)

⁹Canada Mortgage and Housing Corporation (<http://cmhc.beyond2020.com>)

¹⁰There are six metros in the country: Mumbai, Chennai, Kolkata, Delhi, Hyderabad and Bangalore.

¹¹High Level Task Force on Affordable Housing for All, December 2008

SUGGESTIVE APPROACH FOR AFFORDABLE HOUSING

While most definitions for affordable housing consider area, price and affordability of the occupier, the key idea as per our understanding should deal with the minimum size (volume) of the habitable units, provision of basic amenities, cost and location of the house.



MINIMUM VOLUME OF HABITATION

As pressure on urban land increases; architecture of all forms be it commercial or residential, is going vertical. While most definitions adopt an area standard, having an additional volume standard provides flexibility to architects with the flexibility to work on the vertical planning of a dwelling unit as well.

COST OF THE HOUSE

While assessing the affordability of the buyer, the cost of the house should consider not only the purchase costs, but also the maintenance costs of the dwelling unit. Lower operational and maintenance costs using sustainable features are key to the success of any affordable housing project.

PROVISION OF BASIC AMENITIES

While most definitions dwell on minimum area and cost considerations, the provision of basic amenities such as sanitation, water supply and power to the dwelling unit are must haves. In addition, the provision of community spaces and amenities such as parks, schools and health care facilities, either within the project or in the neighbourhood, are desirable.

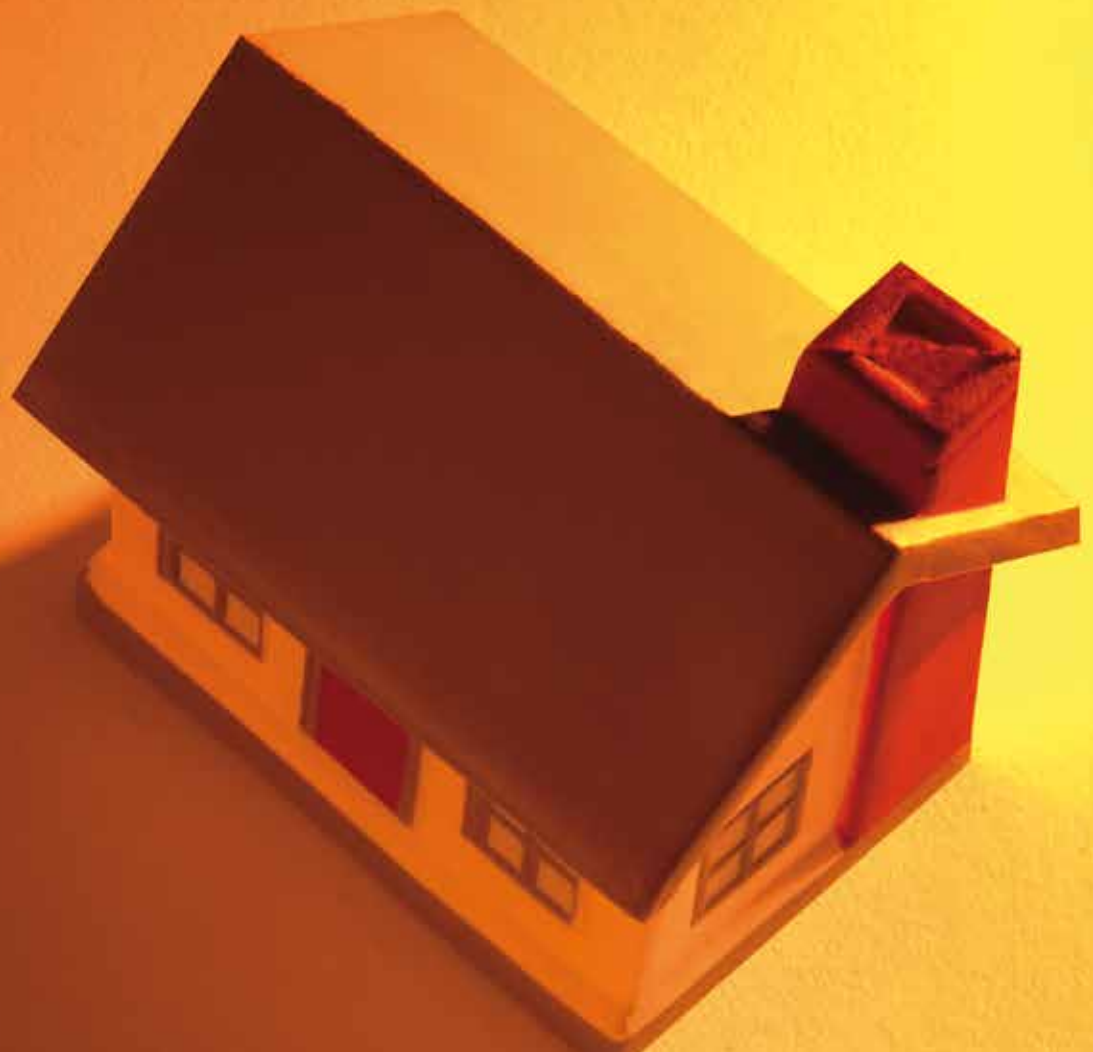
LOCATION OF THE HOUSE

An affordable housing project should be located within a reasonable distance of workplaces and be connected adequately through public transport. If housing is developed very far away from major workplace hubs or entails expensive transport costs to come to the city hub, while the price of the residential units might be low due to lower land costs, the housing plus transportation (H+T) affordability is greatly affected. In the case of innovative homes, key industrial nodes can also serve as workplace hubs.

SUGGESTIVE DEFINITION OF AFFORDABLE HOUSING

Income Categories	Minimum Volume of Habitation	Provision of Basic Amenities	Cost of the House	Location of the House
EWS	<ul style="list-style-type: none"> 250 sq ft carpet area 2,250 cu ft internal volume 	<ul style="list-style-type: none"> sanitation, adequate water supply and power 	<ul style="list-style-type: none"> cost of the house such that EMI does not exceed 30–40% of net monthly income of the buyer 	<ul style="list-style-type: none"> located within 20 km of a major workplace hub (could be suburban hubs as well) in the city
LIG	<ul style="list-style-type: none"> 300–600 sq ft carpet area 2,700–5,400 cu ft internal volume 	<ul style="list-style-type: none"> provision of community spaces and amenities such as parks, schools and healthcare facilities, either within the project or in the neighbourhood, depending upon the size and location of the housing project 	<ul style="list-style-type: none"> reasonable maintenance costs 	<ul style="list-style-type: none"> adequately connected to major public transport system
MIG	<ul style="list-style-type: none"> 600–1,200 sq ft carpet area 5,400–10,800 cu ft internal volume 			

Source: JLL Research and REIS



AFFORDABLE HOUSING VS LOW COST HOUSING

The terms affordable and low-cost housing are often interchangeably used, but are quite different from each other.

Affordable housing is one that once can afford - as a measure of expenditure on housing to income of the household.

Affordable housing offers all basic amenities and facilities with quality, lasting construction but at a price point that is affordable by aspiring customers.

Affordable housing thus cuts across other income segments of the society; especially the LIG and MIG segment and make good economic sense.

The typical size varies from 300 sq. ft. - 800 sq. ft.

Low-cost housing, on the other hand, is less expensive than average or than what one can afford.

These may be basic apartments with bare minimum facilities, mostly located on fringe areas of the city.

Low-cost housing in general could be defined as housing meant for EWS category

Typical area is less than 300 sq ft per unit.

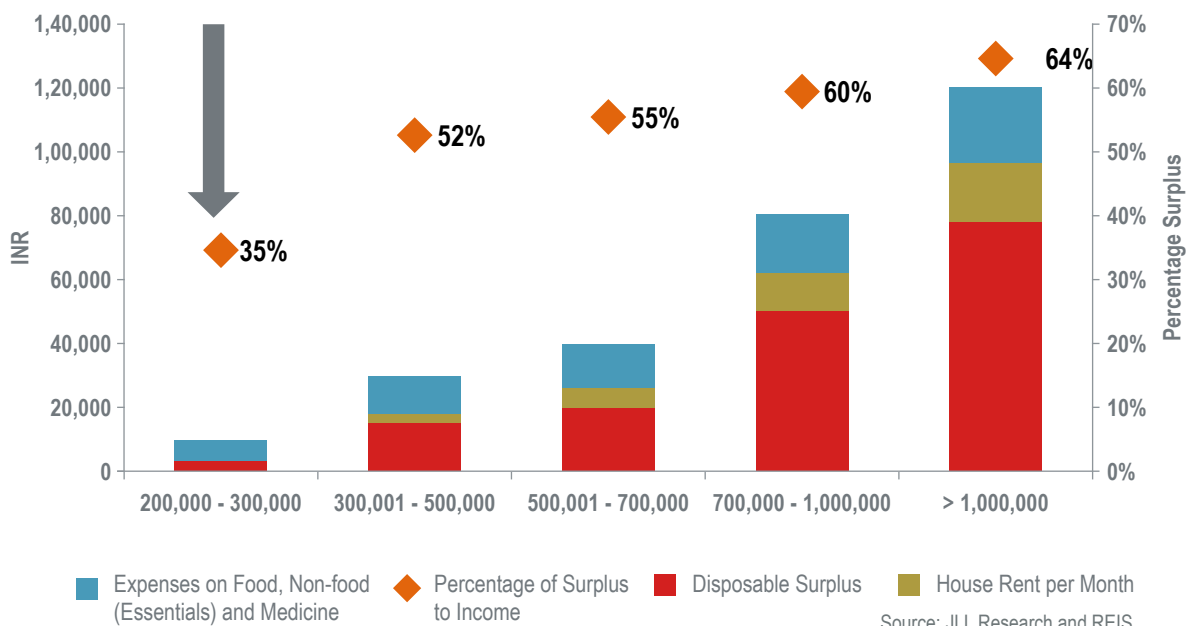
Income Levels and Housing Affordability

The relationship between income and affordability for various income groups follows a nonlinear trend. The costs on food, non-food essentials and house rent form a significant portion of income for lower-income groups. As we move towards higher-income levels, the rise in costs do not increase at the same pace. Disposable surplus income, which is often used to purchase a new house, drops significantly at lower-income levels and is higher at higher-income levels. Thus, people of higher-income levels can better afford to purchase new houses, owing to higher disposable surplus incomes.

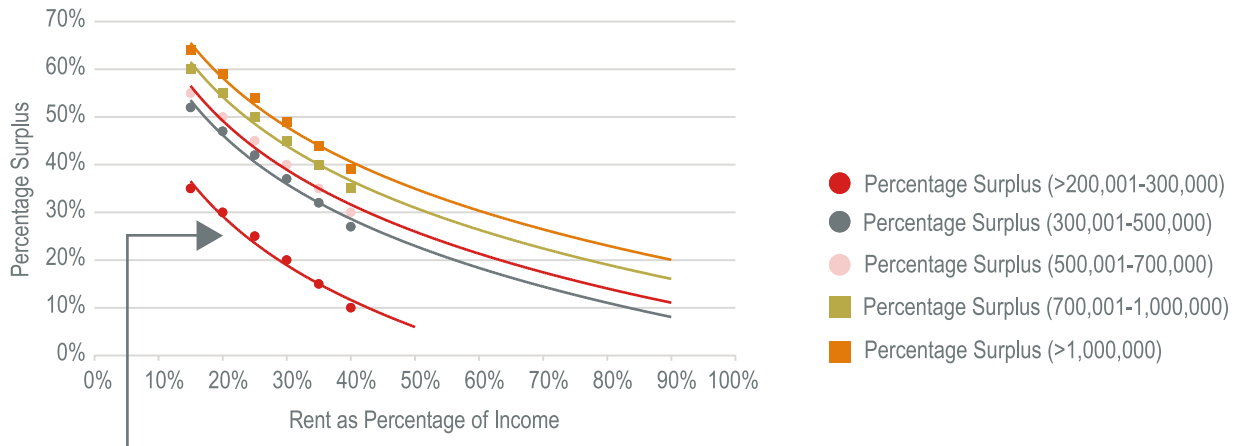
In addition, it can be seen that this disposable surplus is highly sensitive to incremental change of expenditure. For example, if house rents increase from 15% to 20%, the disposable surplus for a LIG household (person with monthly income of INR 10,000) reduces to 30% from 35%. Whereas for a person with monthly income around INR 120,000, it can be seen that when rent increases from 15% to 20%, the corresponding reduction in surplus income is from 64% to 59%.



DISPOSABLE INCOME FOR HOUSE PURCHASE FOR VARIOUS INCOME GROUPS



SENSITIVITY OF RENT AS PERCENTAGE OF INCOME FOR PERSONS OF VARIOUS INCOME GROUPS



Disposable Surplus is highly sensitive towards incremental change of house rents at lower income level

Source: Jones Lang LaSalle Research. Note: Trendlines are logarithmic trends of decrease in percentage of disposable income surplus upon increase in rent as percentage of income

CRITICAL ISSUES IN THE AFFORDABLE HOUSING SECTOR

- Land is the most critical cost in housing projects. Building affordable housing entails land cost should be such that the benefit can be passed on to the end-user. Land cost in urban city centres is high, often constituting more than 50% of the project cost for developers; this makes affordable housing projects unviable.
- Excessive control on the volume of construction in some centrally located areas of the large urban centres, pushing development to peripheral areas that lack infrastructure facilities.
- For affordable housing projects, even construction costs can form a large factor in making projects unviable, since the profit margins for the developers increase exponentially as compared to the construction costs when evaluating projects ranging from affordable to mid-segment to premium and luxury segments. A control on these costs is also crucial for any housing project to stay affordable.
- The land use conversion, building and construction approvals process, which in India could take anywhere from 18-30 months, can significantly increase the project costs for the developers due to additional cost escalation due to the long holding period.
- Lack of marketable land parcels in key areas, where large tracts of land are owned by public entities such as railways and are lying un-utilised or under-utilised which the authorities are unable to utilise for affordable housing developments. Most of these land holdings are un-monitored and also lend themselves to slums & squatter settlements that could later further delay or prevent the development of these land holdings.
- People who belong to LIG and EWS segments have little access to organized finance. A large percentage of these people are occupied in the unorganised sector and also often lack documentation such as proof of address, salary slips, etc. They are therefore perceived as high risk category and are unable to avail finance for purchase of homes.
- Archaic Laws such as Rent Control Act can be detrimental to the urban fabric, as these can lead to a decay in housing stock and hamper redevelopment of areas in prime locations in cities.
- Requirement for focused government policies that enable and incentivize the affordable housing segment such that it becomes more lucrative for developers to build affordable housing projects.

Policies and Regulations in India



CENTRAL LEVEL SCHEMES

Several policies adopted by Central Government have assisted in the delivery of affordable housing for the EWS, LIG and lower MIG. The first National Housing Policy was formulated in 1988. It was followed by the formulations of National Housing Policy in 1994, National Housing and Habitat Policy (NHHP) in 1998 and follow-up of 74th Constitution Amendment of 1992. These policy initiatives focused on transition of public sector role as 'facilitator', increased role of the private sector, decentralization, development of fiscal incentives, accelerated flow of housing finance and promotion of environment-friendly, cost-effective and pro-poor technology. The NHHP introduced landmark initiatives such as involvement of multiple stakeholders, repeal of Urban Land Ceiling Act and permitting foreign direct investment in housing and real estate sector. Taking into account the emerging challenges of required shelter and growth of slums, the first policy specific to urban areas, the National Urban Housing and Habitat Policy was announced in December 2007.

NATIONAL URBAN HOUSING MISSION (NUHM), 2015

The NUHM was launched as a Centrally Sponsored Scheme in 2015. It seeks to meet the gap in urban housing units by 2022 through increased private sector participation and active involvement of the States. It has four broad components or verticals out of which credit linked subsidy would be implemented as a Central Sector Scheme and not a Centrally Sponsored Scheme. The Mission would initially cover 500 Class I cities and will be spread across 3 phases (2015-2022).

- a) Slum rehabilitation of Slum Dwellers with participation of private developers using land as a resource - The Centre would provide a grant of INR 1 lakh per house to the state for deployment in the development of any slum rehabilitation project.
- b) Promotion of affordable housing for weaker section through credit linked subsidy - An interest subsidy of 6.5% on housing loans will be provided to EWS/LIG categories, which can be availed up to a tenure of 15 years. It will cover all the 4,041 statutory census towns from the beginning.
- c) Affordable housing in partnership with Public & Private sectors - Central assistance at the rate of INR 1.5 lakh per house for the EWS category to be provided.

- d) Subsidy for beneficiary-led individual house construction or enhancement- Central assistance at the rate of INR 1.5 lakh per house for the EWS category will be provided.

The salient features of the NUHM are:

- 1) Provides the flexibility to the States to choose the option, which can best meet the demand of housing in their states and also empowers them to formulate and approve projects for faster implementation of the projects.
- 2) Promotes the adoption of modern, innovative and green technologies and building material for faster and quality construction of houses, which would be selected based on discussions with regulatory and administrative bodies.
- 3) Provide technical and financial support in accordance with the guidelines to the states to meet the challenge of urban housing.

Each city will need to prepare a Plan of Action for "Housing for All" and submit to GoI after approval at state level for the purpose of analysis and budgeting. States would also prepare detailed project reports to address the need of different target groups.

NATIONAL URBAN HOUSING AND HABITAT POLICY (NUHHP), 2007

NUHHP 2007 has identified 'Affordable Housing for All' as a key focus area to address concerns that could potentially impede sustainable urban development. The major objectives of the policy are listed below:

- facilitating accessibility to serviced land and housing for EWS and LIG
- land assembly, development and disposal to be encouraged by both private and public sectors
- forging strong partnerships between public, private and cooperative sectors
- creating adequate housing stock both on rental and ownership basis
- using technology to modernise and enhance energy and cost efficiency, productivity and quality

JAWAHARLAL NEHRU NATIONAL URBAN RENEWAL MISSION (JNNURM)

JNNURM was launched in December 2005 with an aim to implement reform-driven, planned development of cities in a Mission mode with focus on up-gradation of urban infrastructure, creation of housing stock and provision of basic services to the urban poor, community participation and accountability of Urban Local Bodies (ULBs). For the housing sector in particular, its main aim was construction of 1.5 million houses for the urban poor during the mission period (2005–2012) in 65 mission cities.

FINANCING OF PROJECTS UNDER JNNURM

Category of Cities	Grant Central Share	State/ULB/Parastatal Share*
Cities with above 4 million population as per 2001 census	50%	50%
Cities with above 1 million population but less than 4 million population as per 2001 census	50%	50%
Cities/towns in north-eastern states and Jammu & Kashmir	90%	10%
Other cities	80%	20%

Source: Modified Guidelines for submission on BSUP, Feb 2009, MHUPA

Note: The percentage figure is on total project cost.

* Including Beneficiary Contribution

Basic Services for the Urban Poor (BSUP) -

The scheme is managed by the Ministry of Urban Development. It seeks to provide seven entitlements or services – security of tenure, affordable housing, water, sanitation, health, education and social security to low-income segments in the 65 mission cities.

Integrated Housing and Slum Development Programme (IHSDP) -

Integrated Housing and Slum Development Programme aims to have an integrated approach in ameliorating the conditions of the urban slum dwellers that do not possess adequate shelter and reside in dilapidated conditions. The scheme is applicable to all cities and towns as per 2001 census except cities/towns covered under BSUP. The sharing of funds would be in the ratio of 80:20 between Central Government and State Government/ULB/Beneficiaries

RAJIV AWAS YOJANA

Rajiv Awas Yojana (RAY), launched as a Centrally Sponsored Scheme (CSS), to be implemented in Mission mode during 2013-2022 for the slum dwellers and the urban poor envisages a 'Slum-free India' by encouraging states and union territories to tackle the problem of slums in a definitive manner. The scope of RAY envisages integrated development of all existing slums, notified or non-notified, with development, improvement and maintenance of basic services to the urban poor, including water supply, sewerage, drainage, solid waste management, approach and internal roads, street lighting, community facilities such as community toilets and baths, informal sector markets and livelihoods centres.

Affordable Housing in Partnership (AHIP) – The scheme of Affordable Housing in Partnership (under RAY) aims to increase affordable housing stock through promotion of various types of public-private partnerships amongst the private sector, cooperative sector, financial services sector, state parastatals and urban local bodies. Central support is provided at the rate of Rs. 75,000 per Economically Weaker Sections (EWS)/Low Income Group (LIG) Dwelling Units (DUs) of size of 21 to 40 sqm. in affordable housing projects taken up under various kinds of partnerships including private partnership. A project size of minimum 250 dwelling units is eligible for funding under the scheme.

Credit Risk Guarantee Fund (CRGF) - With a view to improve access to loans for EWS/LIG persons Credit Risk Guarantee Fund (CRGF) with a proposed corpus of Rs. 1,000 crore in the 12th Five Year Plan has also been created under RAY to guarantee the lending agencies for loans up to Rs. 8 lakh (earlier Rs. 5 lakh) without any third party guarantee or collateral security.

EXTERNAL COMMERCIAL BORROWING FOR AFFORDABLE HOUSING

Under the Union Budget 2012–13, External Commercial Borrowing (ECB) has been allowed for affordable and low-cost housing. This has been done to ensure a lower cost of borrowing for the segment. Under the norms, ECB may have to be routed through the National Housing Bank (NHB), which could act as a centralised mechanism to help small developers avail the facility. The government would also allow developers to raise such debt only for projects where a significant portion of units (75–90%) are reserved for the LIG and EWS.State Sponsored Initiatives.

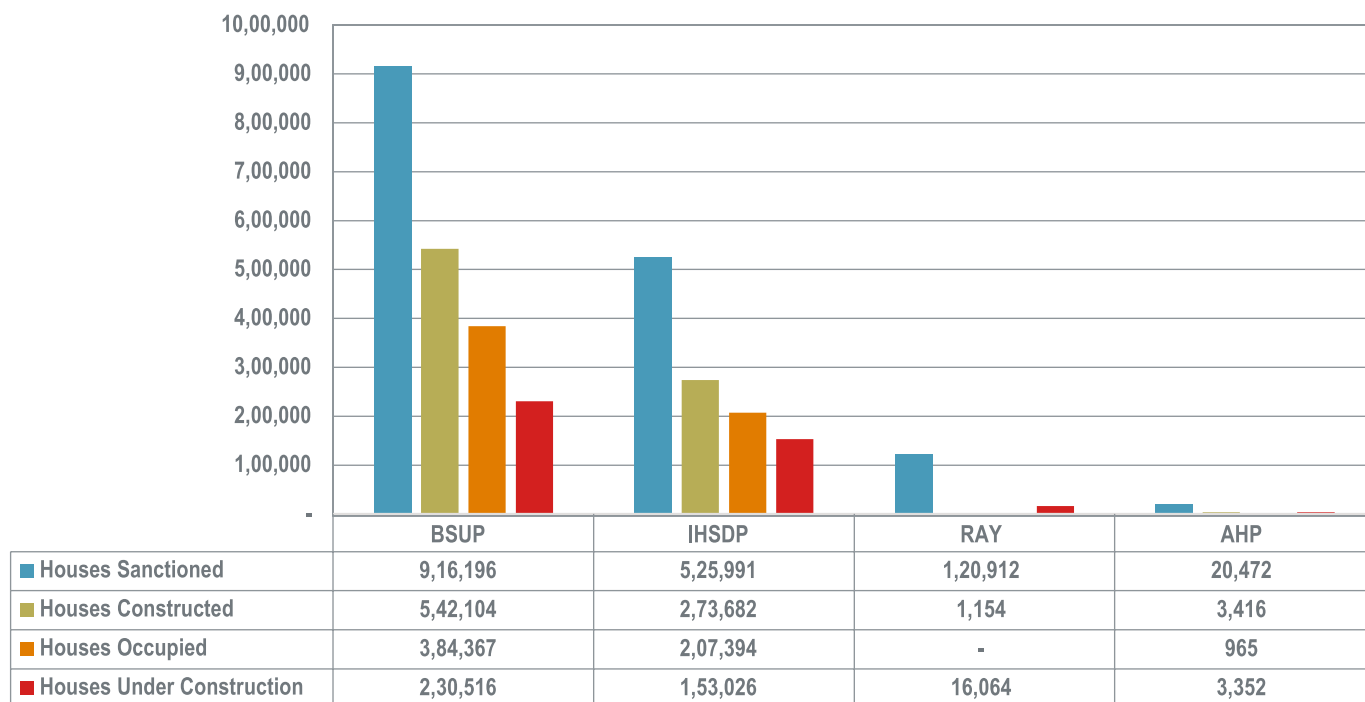
SELECT EXISTING STATE LEVEL SCHEMES AND OTHER CENTRAL LEVEL POLICIES/ACTS

	Affordable Housing Policy, Rajasthan-2015	Affordable Housing Policy, Haryana-2013	Guidelines for Affordable Housing in Partnership by Ministry of Housing & Urban Poverty Alleviation- 2015
Policy Goals	<p>To achieve the goal of “Affordable Housing for All” and integrated habitat development we need to ensure equitable supply of land, shelter and services at affordable prices in Rajasthan, with special focus on economically weaker sections, Lower Income Groups and urban poor.</p>	<p>This policy is intended to encourage the planning and completion of ‘Group Housing Projects’ wherein apartments of ‘pre-defined size’ are made available at ‘pre-defined rates’ within a ‘Targeted time-frame’ as prescribed under the present policy to ensure increased supply of ‘Affordable Housing’ in the urban housing market to the deserving beneficiaries.</p>	<p>It seeks to meet the gap in urban housing units by 2022 through increased private sector participation and active involvement of the States. It has four broad components or verticals out of which credit linked subsidy would be implemented as a Central Sector Scheme and not a Centrally Sponsored Scheme. The Mission would initially cover 500 Class I cities and will be spread across 3 phases (2015-2022).</p>
Objective	<ul style="list-style-type: none"> • To achieve the objective of Affordable Housing for All creation of EWS/ LIG housing stock to fulfil housing shortage in the State. • To attract private investment for construction of houses for EWS/ LIG segment of the society, by giving incentives to the private developers. • To motivate govt. agencies and private developers to take up construction of Affordable Housing. • To identify land for affordable housing which can be monetized by inviting private participation on a large scale. • To expedite the process of construction developers shall be facilitated by fast track approvals. 	<ul style="list-style-type: none"> • To address shortage of EWS, LIG, housing in a time bound manner; • To prescribe unit cost and size of EWS and LIG housing under the scheme; • To promote affordable housing through multiple cost reduction measures; • To provide linkage with slum redevelopment and rehabilitation • To create affordable rental housing for migrant workers and other urban poor; • To expedite the process of construction developers shall be facilitated by fast track approvals 	<ul style="list-style-type: none"> • In situ rehabilitation of existing slum dwellers using land as resource through private partnership wherever possible. • Promotion of Housing through interest subvention. • Promotion of Affordable Housing in Partnership. • Promotion of housing for urban poor by assisting beneficiary led construction.



The earlier schemes by Government of India have not been able to bridge the housing deficit gap. The graph below shows the number of houses sanctioned, completed, occupied and under construction under various Government initiatives.

CURRENT STATUS OF DIFFERENT HOUSING SCHEMES



Source: MHUPA; BSUP = Basic Services for Urban Poor, IHSDP = Integrated Housing and Slum Development Programme.

*All numbers till July 2014. BSUP and IHSDP were part of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). AHP (Affordable Housing in Partnership) was being implemented under the Rajiv Awas Yojana (RAY) by the Ministry of Housing and Urban Poverty Alleviation. Even till March 2015, 7731 houses out of the total sanctioned number of 1.9 lakh were completed under RAY/AHP

There is a huge gap between supply and demand and people have fewer choices when it comes to affordable housing supply. While the supply side constraints for affordable housing include lack of availability of land and finance at reasonable rates, the demand drivers include the growing middle class and urbanisation. Real estate developers, private players in particular, have primarily targeted luxury, high-end and upper-mid housing segment owing to the cost of land and higher returns that can be gained from such projects. In addition, several structural issues, such as the high gestation period of housing projects, limited and expensive capital, spiralling land and construction costs, high fees and taxes as well as unfavourable development bottlenecks restricting the desired growth in housing stock in India.

Meanwhile, with this pretext, the Government of India to address the growing affordable housing deficit in the country and has launched an ambitious goal that promises to provide housing for all its citizens by 2022.

HOUSING FOR ALL BY YEAR 2022

According to the new government in the Indian central power, it has a vision to provide housing to all its citizens by the year 2022. The Government has rolled out “Housing for All by 2022” aimed for urban areas with following components/options to States/Union Territories and cities:-

- In situ rehabilitation of Slum Dwellers using land as a resource through private partnership wherever possible;
- Promotion of affordable housing for weaker section through credit linked subsidy (interest subvention);
- Affordable housing in partnership with Public & Private sectors
- Promotion of housing for urban poor by assisting beneficiary led construction.

HOUSING SHORTAGE PROPOSED TO BE ADDRESSED UNDER NEW MISSION:

As per Census 2011, a total of 13.65 million slum households have been reported in 4041 statutory towns up from 10.2 million households in 2001 recording a decadal growth of about 34%. At the same decadal rate, the slum households are projected to go up to 18 million. 2 million non-slum urban poor households are expected to be covered under the Mission. Hence, total housing shortage envisaged to be addressed through the new mission is 20 million.

COMPONENTS:

Urban poor would be addressed through the different strategies mentioned above to ensure Housing for All -

- Slum Dwellers
- Urban Poor not living in slums

Central grant of INR 1 lakh per house, on an average, will be available under the slum rehabilitation programme. A State Government would have flexibility in deploying this slum rehabilitation grant to any slum rehabilitation project taken for development using land as a resource for providing houses to slum dwellers. Under the Credit Linked Interest Subsidy component, interest subsidy of 6.5 percent on housing loans availed up to a tenure of 15 years will be provided to EWS/LIG categories, wherein the subsidy pay-out on NPV basis would be about Rs.2.3 lakh per house for both the categories. Central assistance at the rate of Rs.1.5 lakh per house for EWS category will be provided under the Affordable Housing in Partnership and Beneficiary-led individual house construction or enhancement. State Government or their different housing bodies like Housing Boards can take up project of affordable housing to avail the Central Government grant.

The scheme will be implemented as a Centrally Sponsored Scheme except the credit linked subsidy component, which will be implemented as a Central Sector Scheme. The Mission also prescribes certain mandatory reforms for easing up the urban land market for housing, to make adequate urban land available for affordable housing. Houses

constructed under the mission would be allotted in the name of the female head of the households or in the joint name of the male head of the household and his wife.

The scheme will cover the entire urban area consisting of 4041 statutory towns with initial focus on 500 Class I cities and it will be implemented in three phases as follows, viz. Phase-I (April 2015 - March 2017) to cover 100 Cities to be selected from States/UTs as per their willingness; Phase - II (April 2017 - March 2019) to cover additional 200 Cities and Phase-III (April 2019 - March 2022) to cover all other remaining Cities. However, there will be flexibility in covering number of cities in various phases and inclusion of additional cities may be considered by the Ministry of Housing & Urban Poverty Alleviation in case there is demand from States and cities and have capacity to include them in earlier phases. Credit linked subsidy component of the scheme would be implemented across the country in all statutory towns from the very beginning.

Dimension of the task at present is estimated at INR 2 crore. Exact number of houses, though, would depend on demand survey for which all States/Cities will undertake detailed demand assessment for assessing actual demand by integrating Aadhar number, Jan Dhan Yojana account numbers or any such identification of intended beneficiaries.

A Technology Sub-mission under the Mission would be set up to facilitate adoption of modern, innovative and green technologies and building material for faster and quality construction of houses. The Technology Sub-Mission will also facilitate preparation and adoption of layout designs and building plans suitable for various geo-climatic zones. It will also assist States/Cities in deploying disaster resistant and environment friendly technologies.

The Technology Sub-Mission will coordinate with various regulatory and administrative bodies for mainstreaming and up scaling deployment of modern construction technologies and material in place of conventional construction. The Technology Sub-Mission will also coordinate with other agencies working in green and energy efficient technologies, climate change etc.

The Technology Sub-Mission will also work on the following aspects: i) Design & Planning ii) Innovative technologies & materials iii) Green buildings using natural resources and iv) Earthquake and other disaster resistant technologies and designs.

In the spirit of cooperative federalism, the mission will provide flexibility to states for choosing best options amongst four verticals of the mission to meet the demand of housing in their states. The process of project formulation and approval in accordance with mission guidelines would be left to the states, so that projects can be formulated, approved and implemented faster. The mission will provide technical and financial support in accordance with the guidelines to the states to meet the challenge of urban housing.

The mission will also compile best practices in terms of affordable

housing policies of the States/UTs designs and technologies adopted by States and Cities with an objective to spread best practices across States and cities and foster cross learning. The Mission will also develop a virtual platform to obtain suggestions and inputs on house design, materials, technologies and other elements of urban housing. And in an attempt to achieve housing for all by 2022, the government is working on a large number of measures such as facilitating faster approvals, introducing self-certification based approvals and the bringing down of interest rates.

FDI IN LOW-COST HOUSING

The government more than halved the minimum built-up area requirement for FDI in construction to 20,000 sq. m. from the earlier 50,000 sq. m. and eased FDI norms in the construction sector in October 2014. This was earlier promised during the General Budget 2014-15. The relaxation proposal was presented by the Department of Industrial Policy & Promotion (DIPP) to attract more foreign investment in the construction and real estate sector, which has been facing a severe liquidity crunch in the past few years. Although 100% FDI has been allowed in townships, housing and built-up infrastructure and construction developments since 2005, only INR 113,355 crore (2000-2015) had flowed into the sector, a relatively small amount compared with some of the other sectors. And while the sector has huge potential for foreign investment, the flow was about 10% of total FDI inflows into the country. Now, projects that commit at least 30% of total cost for affordable housing would be exempt from the minimum built-up area and capitalisation requirements with a minimum three-year lock-in period. In a recent slew of changes, the government further relaxed the exit requirements for investors, wherein the Indian investee company would be permitted to exit once the lock in period of three years is over. As opposed to the earlier requirement of exit only through sale of developed plots¹² or completed project. Subsequently, projects using at least 60% of the FAR/FSI for dwelling units with a carpet area of not more than 60 sq. m. will be considered as affordable housing projects.

INTEREST RATE SUBVENTION TO HOME BUYERS AND PROVISION OF PRIORITY SECTOR STATUS TO CONSTRUCTION LOAN FOR AFFORDABLE HOUSING PROJECTS

Interest subvention is one of the best way to signal increased flow of funds which would reduce the cost of affordable housing. Meanwhile, the central government is likely to increase the amount of loans eligible for interest rate subvention under affordable housing to INR 0.5 million from INR 0.1 million earlier, with the subvention rate being up to five per cent. It is often agreed that the interest rate on housing loans and on loans for construction of housing should not be more than 7-8%. Granting priority sector status to the construction loan for affordable housing is another way to achieve the reduction in rate of interest for home buyers in the affordable segment.

INFRASTRUCTURE STATUS FOR AFFORDABLE HOUSING PROJECTS

Affordable housing is a segment of economy that is of critical importance and requires long term funding. The RBI made an announcement in July, 2014, of treating the affordable housing sector as a part of the infrastructure industry and as a result it is expected that policy dispensation available for infrastructure projects could now be extended to Affordable Housing. The key benefits will include ability of insurance company and other long term loan providers to lend to affordable housing Project and income tax benefits available through 80-IA and 80-IB of Income Tax Act. In addition, extending the infrastructure status to affordable housing projects would make it easier for developers to get finance.



¹²“Developed plots” are pieces of land where the main infrastructure, including roads, water supply, street lighting, drainage and sewerage, has been made available. In addition, the state government, municipal or local body concerned, which approves the building/development plans, will monitor compliance with the above conditions by the developer.

Government Approach towards Affordable Housing

As high urbanisation rate, coupled with high rate of migration from rural areas is stressing the limited urban infrastructure; sub-optimal usage of urban land (low FAR/FSI) has resulted in raising the cost per unit of built-up area. In addition, lack of growth in housing development capacity with respect to construction capability, labour availability, construction material, and housing affordability is likely to pave the way for some major considerations for the government to provide an enabling framework for housing development. Most of the housing development may need to be done for EWS/ LIG households (in both rural and urban areas), and it is the urban affordable housing segment that requires the renewed focus of central and state governments.

To achieve the desired result within a reasonable timeframe, the key considerations for the government would be –

EFFICIENT PLANNING AND UTILIZATION OF LAND AND DEVELOPMENT FRAMEWORK

Urban Local Bodies (ULBs) and Urban Development Authorities (UDAs) need to be delegated powers to undertake the required initiatives for promoting affordable housing. They would need to plan the potential zones for affordable housing schemes in the master plan of the city. They should self-develop or shortlist the developer with healthy incentives to develop these land parcels. The Government needs to ensure adequate availability of land for housing and infrastructure by computerization of land records, use of Geographical Information Systems and implementation of master plans.

This has to be done in conjunction with an effective policy framework for affordable housing, reassessing development norms such as low FAR/FSI, density norms, parking norms, and ground coverage, rationalisation of approval timelines and reasonable fees and taxes.

ENCOURAGING PARTICIPATION OF PRIVATE DEVELOPERS

To encourage private participation in the affordable housing industry, it is important to understand the push and pull factors for this segment -

PUSH FACTORS FOR PRIVATE PARTICIPATION

Factors	Overview	Impact
Slow urban development	India's per-capita urban infrastructure spending of about USD17 in India is low against a requirement of USD100 ¹³ .	High urban land prices and shortage of basic services such as housing, water, waste disposal, power and transport.
Lengthy and complex approval	India has one of the most cumbersome and lengthy processes ¹⁴ .	Increases construction cost with increase in gestation period
Lack of adequate funding sources	<ul style="list-style-type: none"> • Dependence on households' savings • Limited foreign funding sources • Limited access to credit by EWS/LIG. 	<ul style="list-style-type: none"> • Limited and expensive capital tend to increase housing cost • Low access to credit by consumers
High cost of development	<ul style="list-style-type: none"> • Consistent inflation of key input costs • Several indirect taxes 	Increases housing cost making affordable housing projects unviable.
Restrictive development norms	Low FAR/FSI, density norms, ground coverage, parking provision, etc. are not separately defined for affordable housing	The limited urban land is utilised inappropriately inflating housing price.

¹³12th 5 year Plan, 2012-17, Planning Commission, Government of India

¹⁴'Doing business 2013', World Bank

PULL FACTORS FOR PRIVATE PARTICIPATION

Vast economies of scale lead to significant lowering of the costs of development for low-income housing

Improvement in infrastructural connectivity to far-flung locations is increasing their acceptability as residential destinations. Developers want to tap before land prices appreciate such levels that do not support low income housing

Emergence of microfinance institutions focused on low-income housing has helped in improving buyer's access to housing finance.

The government needs to accelerate the efforts to broad-base and significantly augment public-private partnership programmes introduced in the past. ULBs and UDAs could be directed to incentivise private developers in the affordable housing segment by allotting them economical land, higher FSI, single window clearance for approvals, tax subsidies and by reducing EDC & IDC costs. This will help in encouraging more developer's participation in creating affordable homes.

REDUCTION IN INTEREST RATES

The Government needs focused measures for the empowerment of EWS/ LIG households such as lower interest rates for home loans in EWS & LIG category, micro-finance and other innovative financing measures. This will help end users to get cheaper home loans and reduce the inventory overhang in affordable schemes. Another way to reduce costs for developers could also be the provision of cheaper construction finance and sourcing adequate long-term funding across the project life cycle. REITs and REMFs can be excellent funding opportunities for real estate development provided the ambiguities in taxation are removed.

ENCOURAGING LOW COST HOUSING TECHNIQUES

Introduction of best practice solution and new low cost construction and pre-fabricated techniques in affordable housing projects. Although pre-fabricated techniques can be expensive but it saves labour cost and will help in saving construction time as compared to conventional methods.



Affordable Housing Development: Private Sector Initiatives

During 2010–2015, real estate developers have launched projects in the affordable segment across Indian cities, with units priced between INR 0.5-2.5 million. Several of these projects have been sold on an application model due to huge demand, with multiple takers for the same unit.

LOCATION OF PROJECTS AND THEIR DISTANCE FROM CITY CENTRE

With high prices of land within the city, low-income housing projects are being developed at 'leapfrogged locations', which offer land parcels at suitable price points for such developments. Leapfrogging is a real estate phenomenon, in which high prices of intermediate land parcels lead to development of far-flung areas before immediate periphery is developed. Whilst leapfrogging leads to cost-effective developments, they might lack development of adequate physical and social infrastructure.

Depending on the decay of land prices, cities offer parcels for such developments at different distances from the city centre. Mumbai and NCR- Delhi have the modern affordable housing projects located 55–135 km away from the city centre. On the other hand, Hyderabad provides better proximity, with projects located at a distance of 15–20 km from the city centre. Bangalore, Pune, Kolkata and Chennai also have projects after a distance of 20–45 km from the city centre.

Most of the Indian metropolitan cities have expanded on a multiple nuclei model, in which satellite towns have been developed, which acts as secondary nodes to the city. Most of these newer locations being explored by developers of housing for low-income groups are at reasonable distances from these nodes and are attractive options for people employed in these suburban commercial nodes. Some of them are in close proximity to industrial nodes as well, which generates demand for such housing projects. Hence, although their distances from the city centres initially seem large, these projects are still suitable for several people employed in industries or offices located near these areas.

Mumbai has led the sector, with over 20 projects targeting this segment. Karjat, Vasind, Palghar and Boisar in Mumbai along with Chakanand, Shikrapur in Pune have multiple ongoing projects catering to low-income groups. Anekal Road in Bangalore, which is around 9–10 km away from Electronic City, has one project by Value and Budget Housing Corporation (VBHC) and Janaadhar each.

While many of the end-users have realised their dream of home ownership, on the flipside, the travel time required to reach places

of work from affordable housing projects is getting troublesome. Therefore, a concerted effort is required by the government to reduce the productivity loss and to facilitate mass development in this sector. This includes forcing the development of affordable housing by reserving land closer to commercial and industrial hubs exclusively for affordable housing. Bylaws for such projects should be changed in terms of providing higher Floor Space Indexes (FSI), subsidies, tax benefits and planning support. On the other hand, the demand-side subsidies include housing loans being made available at low interest rates to the lower income sections of society.

A KEY CONCERN: PRODUCTIVITY LOSS

City	Lost Person-hours per day per person*	City-wise Percentage Loss in Total Productivity Loss			
		2012	2013**	2014**	2015**
NCR	4.5	19%	28%	35%	37%
Mumbai	5	43%	39%	39%	42%
Bangalore	4	21%	17%	11%	10%
Kolkata	3	7%	6%	5%	1%
Pune	3	6%	4%	3%	4%
Hyderabad	3	1%	1%	1%	1%
Chennai	4	4%	4%	6%	6%

City-wise Percentage Share of Productivity Loss during 2012-15

Source: Jones Lang LaSalle

* Loss of person-hours due to travel to places of work from affordable housing projects

** JLL Forecast



MAJOR DEVELOPERS IN THE SEGMENT

Amongst the developers, Xrbia Developers, Tata Housing (Shubh Griha) and VBHC are entirely focused on innovative affordable homes and have already launched multiple projects across cities, with announcements for large expansion into new cities and locations. Housing Development and Infrastructure Limited (HDIL) and Usha

Breco Realty, both experimented the format with their projects successfully in Palghar and Boisar. Xrbia Developers has launched multiple projects at Eastern Mumbai District (EMD), an upcoming destination in the outskirts of Mumbai. Other notable developers that have announced future developments targeting this segment are Mahindra Lifespaces, TVS Housing and S Raheja.



TYPICAL AFFORDABLE HOUSING PROJECT

25 – 35	TARGET	1,500 – 3,000
Reducing cube partition can lead to more space supplemented by brainstorming rooms and touchdown spaces	Industrial zones in vicinity and suburban commercial nodes of the city	No. of units; reduced margins however higher income volumes
80 – 100	5 – 10 LACS	1,800 – 2,500
Units per acre dwelling density	Price range for 1-RK in 250 – 350 sq ft and 1-BHK in 400 – 500 sq ft	Launch rate in psft; adjusting all margins on FSI and construction
G + 3/4	12-15 MONTH	AMENITIES
Building structure low rise without lift to curtail construction cos	per phase construction period	Basic amenities viz. green area and some social infra such as primary school & nursing centre

Government Initiative on a National Scale: Singapore Affordable Housing Project

SINGAPORE AFFORDABLE HOUSING PROJECT

Today, more than 80% of Singapore's population is living in public flats, with 93% of them owning their flats. Because of this, the public housing model of Singapore is considered as one of the most successful examples of affordable housing models in the world. The Housing and Development Board (HDB) is Singapore's public housing authority and a statutory board under the Ministry of National Development. As Singapore's sole housing agency, the HDB is unique in its organizational structure, function, and approach to housing. It operates like a single, comprehensive source for housing development and coordinates planning, land acquisition, construction, financing, and policy for housing in Singapore. By centralizing its public housing effort, Singapore has avoided the problems of government silos and fragmentation of duties that are associated with multi-agency implementation.

THE UNIQUE ASPECT OF SINGAPORE'S HOUSING MODEL IS THAT EMPHASIS IS ON OWNERSHIP RATHER THAN RENTAL. Affordability is ensured through a set of modalities, including the provision of different unit sizes, progressive mortgage payments (based on income levels), low interest rates and government subsidies. For example, government subsidizes low-income groups and first time buyers for buying houses. Till date, HDB has developed more than 900,000 flats in Singapore, which have been given to Singaporeans.



INDIVIDUAL PROJECT CASE STUDIES: AFFORDABLE HOUSING PROJECTS

BRAZIL

FEATURES	PROJECT WITH LOCATION	IMPLEMENTING AUTHORITY	STATUS
<p>The structure is comprehensive with two types of housing units:</p> <ul style="list-style-type: none"> oType I: BUA 35 sqm, Carpet Area 32 sqm oType II: BUA 42 sqm, Carpet Area 37 sqm <ul style="list-style-type: none"> • Innovative construction techniques • Partnership between federal and local governments as well as private developers 	<p>My House, My Life Programme</p>	<p>The Ministry of the Cabinet with the Ministry of Finance and Planning</p>	<p>Being implemented successfully</p>
	INFRASTRUCTURE	WORK-PLACE RELATIONSHIP	ISSUES
	<p>Infrastructure is provided through partnerships with local governments and private companies.</p>	<p>It is mandatory to connect the development with the rest of the city through mass transit system to maintain work-place relationship, which is the responsibility of the local government</p>	<ul style="list-style-type: none"> • Insufficient capacities of local governments- both technologically & financially • Limitation of architectural design • Unavailability of well-located & serviced land

DEVELOPMENT PROCEDURE

- Families with a monthly income between GBP 416 - 1388 will be able to receive subsidies from the Government and pay as much as 20 percent of their monthly income for the access to the new homes. The program has also devised a backup plan for families, who lose their jobs on allocation of homes, with a special fund
- A three-tier institutional structure with active support from private developer.

WEST BENGAL

FEATURES	PROJECT WITH LOCATION	IMPLEMENTING AUTHORITY	STATUS
<p>The township is built on 150 acres and likely to house nearly 1,00,000 people</p> <ul style="list-style-type: none"> • There would be 20,000 units that are divided into two types o'Spandan' (1 - BHK) -12,000 units - G+4 structures o'Sparsh' (2 - BHK) – 8,000 units – G+14 structures as per the initial plan 	<p>Sukhobrishti Mass Housing, Kolkata</p>	<p>Shapoorji Pallonji with the help of Govt. of West Bengal</p>	<p>At implementation stage</p>
	INFRASTRUCTURE	WORK-PLACE RELATIONSHIP	ISSUES
	<p>The developer will provide more than basic facilities to the affordable segment</p>	<p>The township is located near the major PBD locations such as Salt Lake and Rajarhat - New Town, and is connected by major arterial roads. Thus, maintaining work-place relationship is much easier.</p>	<ul style="list-style-type: none"> • The allocation process of the units is faulty • A lot of units were allotted to different quotas of state govt., like KMDA, police etc. • The final products were unable to reach to the end users in the initial phases. The investors made speculative gain of the situation.

DEVELOPMENT PROCEDURE

- The project was awarded to the developer by Kolkata Metropolitan Development Authority (KMDA) on behalf of Govt. of West Bengal.
- The initial selling price was kept as INR 0.4 million for 1 BHK apartments, and INR 0.8 million for 2 BHK apartments.
- The developer was awarded land parcel by the government to develop commercial projects in return to the mass residential development

GUJARAT

FEATURES

423 housing units in 3 types of flats ranging from 297 sq feet to 730 sq feet will be developed. The project includes incorporation of green design concepts in all stages of development and electricity, sewage and drainage installations

- The apartments will be sold within the range of INR 3 million to INR 6.5 million

PROJECT WITH LOCATION

Affordable Housing Development in Vatva, Ahmedabad

INFRASTRUCTURE

The development of infrastructures like sewerage, drainage, water supply, electricity and mass transport is the responsibility of the ULB

IMPLEMENTING AUTHORITY

Foliage Real Estate Developers Ltd

WORK-PLACE RELATIONSHIP

- The project is being developed near Vatva, GIDC, and the project can be a lucrative one for the industrial workers
- The connectivity factor will be taken care of by the ULB

STATUS

At construction stage

ISSUES

The project is in final stage construction after being active for long (since 2009). Overall the project is getting good response.

DEVELOPMENT PROCEDURE

- Lower margin but more volumes
- Secure Repayment: The MFIs play a key role communicating to the targeted customers
- Reduction of costs of construction materials by:
 - > Using alternative products, such as mud blocks
 - > Partnership with cement companies
- Cheap and standardized building
- Short construction time
- Targeted return is minimum 20% per annum



Reforms Required

Properly functioning urban land and housing markets are critically needed to accommodate India's growing urban population. The absolute volume of the overall demand for good-quality housing and serviced land is already daunting. Countering the adverse impacts of congestion forces, particularly in land and housing markets, is an urgent priority for the country. Fundamental reforms are required if these markets are to meet the increasing demand for affordable urban housing.

Many Indian cities have failed to enable the emergence of efficient and affordable housing markets. Some examples of cities that follow comparatively good practices exist, such as Ahmedabad, but the vast majority have limited technical capacity, inadequate resources to finance infrastructure, and counterproductive planning and development control regulations.

Generally, although conditions vary from city to city, the supply of affordable urban land and housing lags far behind demand. This affordability gap forces households priced out of the formal market to live in slums and squatter settlements, move in with extended family members, rent smaller units, or move to the city periphery and commute long distances. The lack of access to affordable housing is, in turn, an important factor in the generally lagging levels of livability in Indian cities.

Indian cities must both reform land and housing policies and foster innovative housing finance. High housing prices can be attenuated over time by relaxing land use and development control regulations, building infrastructure to open up land for residential development, adopting efficient and easy-to use land-titling and land-registration systems, and increasing access to construction and mortgage finance. Government regulations also need to stimulate the supply of affordable rental housing. Finally, city and suburban governments need to change their policy stance on informal housing from "curative" to "preventive" measures-to go beyond slum upgrading to actually slowing the growth of the slum population in the first place. Offering more options to low and middle-income households will increase prosperity, reduce poverty, and enhance the quality of life for urban dwellers across India.

Urban land and housing markets are highly complex and require a flexible supply of land and developed housing stock to meet growing demand. If markets are operating effectively, housing supply should expand to accommodate increasing demand, easing upward

pressure on prices and facilitating provision of accessible options to households of different income levels. Improving the responsiveness of land and housing markets to demand is difficult, but not impossible.

Realising the dream of Housing for all by 2022 can be a step towards building a brighter India. It can pioneer a new way to foster collaboration on a large scale between mortgage financiers, developers, citizens and informal sector clients.

Central and several state governments in the past have undertaken steps to mitigate the urban housing deficit, largely in partnership with the private sector. These efforts have yielded notable results. While, efforts of the governments (both central and state) taken in past are commendable, they need to be accelerated to eliminate housing deficit in the country. In addition, mobilisation of such huge resources (funding, construction capacity, labour, technology, etc.) for mass scale affordable housing development by the central and state governments may be difficult, without participation from the private sector. The private sector, which is often better in terms of managing construction risks and project delivery should be encouraged by central and state governments, by addressing several structural issues.

In a long-term, preventive approach, planning and land-management processes need to carefully balance projected housing demand and population growth with land and housing supply or production capacity. Before considering what governments should do to carry out this approach, it would be useful to estimate how much land is needed to meet the projected demand for housing arising from urbanization and household formation trends through 2050. The answer to this would also depend on whether most of the existing backlog can be accommodated on existing urbanized land and the population density of these new developments.

With the help of CREDAI, we had tried to outline some requirements that are in line with the recommendations of the three Task Forces that were set up by the Ministry of Housing and Urban Poverty Alleviation (MoHUPA) between 2011-2013 to suggest steps to improve the supply of affordable housing and rental housing. The outlines are divided into following parts (i) Policy Changes that is within executive authority of the Central Government, (ii) Policy changes that would require approval of the Parliament and (iii) Policy changes which currently are in the domain of the State Government and (iv) Policy that would require time for implementation but will also have significant impetus to affordable housing.

PART 1: POLICY CHANGES WITHIN THE EXECUTIVE AUTHORITY OF THE CENTRAL GOVERNMENT

Changing approval mode to automatic route for External Commercial Borrowing (ECB) in affordable housing- The Reserve Bank of India, in 2013, relaxed the ECB norms for affordable housing projects by withdrawing the minimum capital requirement, and lowering total experience required for the developers to three years.

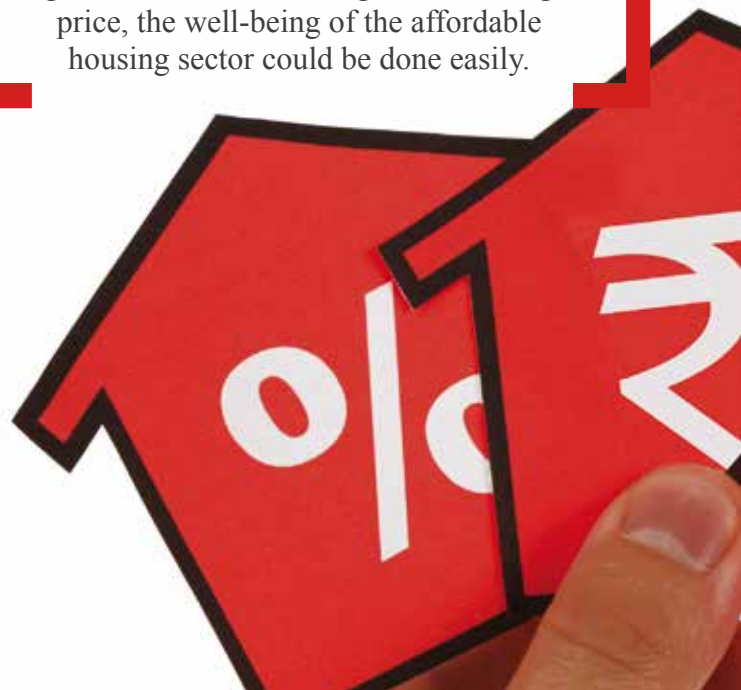
Permit all HFC to access ECB Funding and bring this into the automatic approval route- The RBI policy on ECB funding only allows a few large HFC to access ECB funding. While in India, there are many HFCs who are more focused in their approach to lending to low and moderate income households, and they should not be denied.

Increased construction finance from NHB funds for affordable housing- Encouraging NHB to increase lending to developers with sound background could help better finance availability in the sector. NHB has funds provided at concessional terms from global development institutions such as Department of International Development (DIFD) and International Finance Corporation (IFC). And the disbursements are linked to project meeting green standards. NHB could use agencies that can certify projects meeting green standards and mandate to lend money for construction, rather than using the funds as investment in treasury instrument and public sector bonds.

Increase NHB refinance to HFC that are focused on financing low and moderate income household- A number of new Housing Finance Companies with focus on funding low and moderate income households could now come into existence, post NHB's liberalized licensing policy. And they could be helpful to customers who are ignored by the mainstream lenders due to absence of document as well as prior credit history. However, only a miniscule fraction of NHBs total fund is allocated to the new housing finance companies and increasing the share would no doubt help the lower income category.

Fiscal Tax Concessions- Affordable housing projects should be inferred with the status of SEZ projects with consequent fiscal benefits comprising exemption from excise duty and service tax,

Looking at North-East- The North-East India suffers from the highest cost of construction materials in the country making affordable housing virtually impossible. And this is in spite of the fact that the North East Investment and Industrial Policy (NEIIP) of the Government of India gives very significant subsidies to the industries manufacturing these materials like cement and steel which are located in the region. The list of subsidies enjoyed by the construction material manufacturing industries in the region includes, 100% Income tax exemption, exemption of excise duty, transport subsidy, manpower subsidy, power subsidy, generator set subsidy, 30% Capital subsidy, 99% Vat exemption and interest subsidy on working capital as well as 100% reimbursement of insurance premium. There is absence of mechanism in these policies that would ensure that the billions in public expenditure incurred in these subsidies for the benefit of the region and its people, reaches the intended beneficiaries or serves any public purpose. As a result, materials are sold at a very high price compared to rest of the country leading to escalation of housing costs so much that 32% of the people are already living in slums. And hence, if at least 80 % of the of subsidy enjoyed under the NEIIP is passed on in the form of reduced prices of building materials while linking the grant of subsidies to a legitimate selling price, the well-being of the affordable housing sector could be done easily.



lower stamp duty on transfer of ownership to the buyers and reduction of tax rate to rate prescribed for MAT. In addition, providing benefit under Section 35AD for the Real Estate Sector or restoring Section 80I (B) of the Income Tax Act could help increase the fiscal benefit to the sector. And if the threshold limit is increased to INR 0.5 million for deduction on interest on housing loans under Section 24(B) of the Income Tax and Wealth Tax, it would be beneficial for middle income group categories of the country. At present, maximum tax deduction on home loan is allowed as INR 0.2 million under Sec 24 for Interest on interest on loan and INR 0.15 million u/s 80C for repayment of principal.

Other approvals from Central Government agencies that are required for affordable housing project- We need to have electronic filing of approval requirements for clearance from AAI, the Central Government Ground Water Authority and a defined time line (usually 30 days) for approval. This will speed up the approval process and electronic filing will eliminate rent seeking.

Defining universal minimum Floor Space Area (FSA)/ Floor Space Index (FSI) across India- FSA/FSI varies from State to State and within a State by District. For example in Maharashtra, maximum FSA in locations outside MMRDA is only 0.75, whereas in Karnataka the FSA is uniform (based on road width of access road) and varies from 2.0 to 2.75. In some states, e.g. Orissa, there is an additional 0.25 FSA (over the norm) for Affordable Housing. What is important is to define a minimum FSA so that scarce land is used efficiently and is adhered by all States. However, taking care of the zonal requirements, such as, coastal area, hills and other protected areas, through FSI/ FAR most suitable is much importance to preserve the country's ecological balance.

Define universal maximum stamp duty for affordable housing- Stamp duty for registration varies from state to state and the range is from a nominal fee going up to 10%. However, lower and universal stamp duty results in higher revenue both through higher compliance and through higher liquidity for property and the resultant turnover.

Investment in R&D for construction industry- Institutions like Housing and Urban Development Corporations (HUDCO) and Indian Institute of Technologies (IITs) as well as developers should be encouraged for innovation. This could be achieved through a process of fund allocation for such innovation and tax benefits for investment made by the developers for promoting such innovation.

PART 2: POLICY CHANGES THAT WOULD REQUIRE PARLIAMENT APPROVAL

Real Estate Bill- The Real Estate (Regulation and Development) Bill that was crafted in 2013 is now pending approval of the Parliament and the President of India.

PART 3: POLICY CHANGES THAT WOULD REQUIRE ENGAGEMENT AND APPROVAL OF THE STATE GOVERNMENT

Land Conversion: Agriculture to Non-Agriculture- Land conversion is a serious challenge and involves long lead time. Rules in many states (e.g. Maharashtra) require that the building plans are first approved by the town planning authority, and only thereafter is the application for non-agriculture conversion is taken up. Further, in states such as Maharashtra even the minor subsequent modification request of the building plans, results in the land reverting to an agriculture status and fresh set of approvals are required for clearance. The sequential approval process, thus, results in longer approval time while conversion of agricultural land to non-agriculture has no link to the type of apartments being constructed. For example, in Karnataka, conversion of land from agriculture to non-agriculture is by way of a simple submission to the approving authorities for conversion and paying the requisite fees across the counter.

Publishing all Development Norms on e-portals - All bye-laws and maps should be digitised at good quality and published on the department web sites in the interest of transparency and good governance. The process of publishing on web sites is active in some of the states. In addition, request for clarification of bye-laws interpretation should be accepted electronically and such clarification should be added to the FAQ section of the bye-law.

Appellate authority for appeals and conflict resolution- Since town planning approvals are decentralized at district/ sub-district level, there is wide range of interpretation of the bye-law and there is less scope for developers against interpretation of a town planning unit. And as an appeal through courts is a time consuming process, a similar mechanism in the form of Securities and Exchange Bureau of India (SEBI) guidelines or Insurance Regulatory and Development Authority (IRDA), should be initiated. These authorities have a framework for an appeal to the tribunal or ombudsman. And a step in the same line with the formation of an appellate authority or ombudsman or a supervisory board would be helpful for the sector.

Automatic panchayat approval on payment of fees- While the developers are willing to pay all the fees for the approvals from panchayat and thereby support the financial requirements, the current



approach of requiring panchayat approval to building plans and approvals for commencement of construction has only resulted in delay in getting all approvals. Interestingly, the building plans are required to be approved at the end by the state town planning authorities who are far superior in technical competencies compared to the panchayats.

Single window clearance and electronic submission of documents for approval for building permits- There can be two approaches for a speedy clearance

- Manual process, whereby certified architects can confirm compliance of plan to the bye laws and the approvals are based on such certification.
- Second option is to provide for an IT driven approval process. This model is scalable and could be implemented across the country. However, regardless of methodology adopted, maximum approval time must be defined. Similarly time for pre-plan work such as completion of Government Survey, partition of lands, various NOCs and similar administrative process must be completed with a predefined time.

PART 4: STRUCTURAL LONG TERM CHANGE

The structural change is required to harmonise bye-laws and provide for a more consistent framework across the country. For example, the minimum room, minimum kitchen size or minimum bathroom or height of the ceiling varies across states. Harmonisation of bye-laws will result in standardisation and move the construction industry to an industrial process. The result of standardisation is improved quality, lower component cost and better training process for workers.

Given large changes in technology, there is also a requirement to relook at building codes and there are opportunities to have both better design and lower cost. However, there is always a need to look at the process of harmonisation as India is vast and many zones offer typical regional features, such as the hilly, coastal, protected areas. And they should be left out of the process with the provision of case specific changes.

Indore Municipality has set a process of submission of approval request in electronic format to confirm the building plan to the bye-laws. The software program lists all changes that are required to make the submission comply with the bye-law. The turnaround time for comments is within 72 hours and approvals can be provided within a week of submission. The building approval process of Indore is now getting extended to the whole of Madhya Pradesh. The Indore Model has resulted in the municipality earning higher fees, reduction in litigation and very quick approval cycle time.

Rajasthan UIT has a single window clearance for all approvals that are required from the state Government and the approval cycle time in Rajasthan is shorter than other States. There is a legal provision for maximum approval time of 90 days.

Karnataka State has set up a high powered committee that can approve projects as the committee has representatives from all approving authorities. A higher building approval fee is charged while there is a commitment to provide all approvals within 90 days.



Way Forward



AN INSTITUTIONAL APPROACH TO AFFORDABLE HOUSING

The objective of creating affordable housing is to provide adequate shelter to all. Creation of affordable housing should encompass both – enabling people to buy and to rent, for which there is a need to put an institutional structure in place. The present models on which affordable housing is being created concentrate on the ability of people to buy. These models require a myriad of agencies from public and private sectors to work together. Private sector develops affordable housing projects and sells them in the open market. Government agencies such as Urban Local Bodies (ULBs) and Urban Development Authorities (UDAs) are responsible for laying down guidelines and bylaws for affordable housing. Certain restrictions imposed by MoEF limit the use of land, resulting in the lack of supply of land and thus higher pricing. RBI regulates monetary policies that affect interest rates, which has a major impact on the ability of home buyers to purchase houses.

People who look to buy houses in urban areas are mainly those who have been in the city for a considerable amount of time and require new houses due to growing family size. Thus, this model addresses only a part of the target segment that needs affordable homes. Also, by using this model, there is no guarantee that the beneficiaries of such projects are the actual needy people or speculative investors. Another target segment that requires affordable homes are city migrants who cannot afford to buy houses immediately but are capable to rent housing premises. Such people require a differentiated approach towards affordable housing. The three main groups that require to work in sync with each other to make affordable rental housing are:

- Enablers – Self Help Groups, NGOs and registered societies are the first institutions to identify the genuine user groups, which help to establish common interests and channels of communication
- Providers – such as ULBs, financial institutions, government departments and research institutes would be needed to provide the target groups with approvals, incentives and technical and financial support
- Executors – enterprises such as private developers, Public Sector Undertakings (PSUs) and Public Private Partnership (PPP) firms would be required to hold and maintain rental accommodation with adequate support from the first two groups.

WHAT NEEDS TO BE DONE?

Development of large-scale affordable housing is the greatest necessity of urban India today. Indian cities lack them, and this has resulted in the proliferation of slums and unorganised real estate across the landscape. This is detrimental to the planned growth of cities. Large-scale urban developments are becoming increasingly difficult due to lack of land parcels, congested transit routes, lack of finance, rising input costs and regulatory hurdles. However, it is vital that these issues are addressed urgently so that a comprehensive framework can be established in ensuring the development of affordable housing.

DEMAND SIDE

- Formulate guidelines for identifying right beneficiaries- There is a need to formulate guidelines that would help identify right beneficiaries for affordable housing projects. This would help in ensuring the reach to right beneficiaries and avoid involvement of speculative investors into the projects. Creation of the National Population Register and issuance of unique identity through Unique Identification Authority of India will become crucial steps in identification of right beneficiaries, if they are linked with income levels
- Innovate on micro mortgage financing mechanisms to ensure a larger reach- Effective financing through micro mortgages by utilising the reach of Self-Help Groups (SHGs) and other innovative financing mechanisms would ensure that housing finance is available to large sections of LIG and EWS populations. Flexible payment mechanisms should be put into place, as households in low-income groups typically have variable income flows.

SUPPLY SIDE

- Incentivise developers to develop affordable housing- ULBs and UDAs can develop guidelines by giving free sale areas, extra Floor Space Index (FSI) and other policy measures so that real estate developers are incentivized to develop affordable housing. Schemes for redevelopment and slum rehabilitation should be developed with incentives that generate sufficient returns for the developers whilst controlling the development density. The cost-benefit analysis of regulations should be carried out from a development perspective to ensure that schemes to facilitate the development of affordable housing are feasible.
- Streamline land records to improve planning and utilisation of land- Adequate availability of land should be ensured for housing and infrastructure by computerisation of land records, use of Geographical Information Systems, efficient dispute re-dressal mechanisms and implementation of master plans.
- Include mass housing zones in city plans and develop them within a planned schedule accounting for the future requirement of affordable housing - Some cities have already dedicated zones in their master plans for development of affordable housing. Whilst this needs to be replicated in other cities and towns, it should be ensured that they are developed within a planned schedule and sufficient to cater to the projected housing needs of the cities.
- Enact rental housing schemes in urban areas- Authorities like MMRDA have experimented with rental housing schemes, but these have not been very successful as a proper framework has been missing for such schemes. Limitations in such schemes include development in far-flung areas, which are not suitable as affordable housing locations and lack of means to identify end users.
- Formulate policies for greater participation from private sector in the way of technological solutions, project financing and delivery- Disruptive innovation in terms of technological solutions, project financing and delivery is required, which reduces costs of construction significantly despite rising costs of inputs. As construction costs form a significant portion of the selling price of affordable housing units, the savings in construction can immensely benefit the occupier.



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INDIAN CHAMBER OF COMMERCE

Founded in 1925, Indian Chamber of Commerce (ICC) is the leading and only National Chamber of Commerce operating from Kolkata, and one of the most pro-active and forward-looking Chambers in the country today. Its membership spans some of the most prominent and major industrial groups in India. Currently, Mr. Shiv Siddhant Kaul is leading the Chamber as its President.

ICC is the only Chamber from India to win the first prize in World Chambers Competition in Quebec, Canada.

ICC's North-East Initiative has gained a new momentum and dynamism over the last few years, and the Chamber has been hugely successful in spreading awareness about the great economic potential of the North-East at national and international levels. Trade & Investment shows on North-East in countries like Singapore, Thailand and Vietnam have created new vistas of economic co-operation between the North-East of India and South-East Asia. ICC has a special focus upon India's trade & commerce relations with South & South-East Asian nations, in sync with India's 'Look East' Policy, and has played a key role in building synergies between India and her Asian neighbours like Singapore, Indonesia, Bangladesh, and Bhutan through Trade & Business Delegation Exchanges, and large Investment Summits.

ICC also has a very strong focus upon Economic Research & Policy issues - it regularly undertakes Macro-economic Surveys/Studies, prepares State Investment Climate Reports and Sector Reports, provides necessary Policy Inputs & Budget Recommendations to Governments at State & Central levels.

The Indian Chamber of Commerce headquartered in Kolkata, over the last few years has truly emerged as a national Chamber of repute, with full-fledged offices in New Delhi, Guwahati, Patna, Ranchi and Bhubaneswar functioning efficiently, and building meaningful synergies among Industry and Government by addressing strategic issues of national significance.