

Affordable Housing: Taking Off

The need of the hour is to create many more urban centres beyond the already stretched big cities

In the Union Budget 2017-18, Finance Minister Arun Jaitley accorded infrastructure status to India's affordable housing sector. This builds further on a 2016 Credit-Linked Subsidy Scheme offered to India's economically weaker segments to enable affordability of housing. Put together, these initiatives will galvanise the *Pradhan Mantri Awas Yojana* (PMAY), the NDA government's ambitious, and badly needed 'housing for all' scheme first announced in the 2015 Budget. Targeting just over 300 cities through until 2022, and in response to a stated shortfall of 20 million homes in urban India, the PMAY is a potential confluence of two aims – to accelerate economic growth and to meet a crushing need of millions of Indians in the economically weak/lower income segments of society.

Reviewing both ends of the government's efforts to enable supply as well as demand, it is quite likely that both will come into play, even if without immediately visible effect. The game, like much of this government's endeavours, is more long term.

When Singapore gained its independence, its government's first focus in nation building was on housing to respond to a crippling shortfall and in recognition of the insufficiency of current resources. India's story, at this stage, is different but the end, if achieved within stated time frames, could be similarly dramatic, albeit in

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very different ways. Our urban centres are growing rapidly – almost too rapidly – with employment opportunities concentrated in India's mega (and then other) cities. Many believe that the 20 million shortfall is itself an under-estimation, given the continuing rural-to-urban, and urban-to-urban (implying unequal growth) migration. The greater demand is clearly from the

economically weak segment (EWS) and lower income groups (LIG). As per the National Housing Bank, India's housing-finance promotion agency, 96 per cent of the 20 million shortfall is in these segments alone. At the other end, reports suggest that supply, constrained by affordability of the consumer, lack of interest by developers/housing finance companies and low prioritisation by governments thus far, is not even at 10 per cent of the total. So grim is the situation that when the Maharashtra Housing and Area Development Authority recently advertised the sale of 4,275 low-cost homes in a Mumbai suburb, it received 165,000 applications.

The pace is evident. Since 2015, the government has approved projects to build a total of over 1.7 million homes. Only weeks ago, 352 government-backed private projects to build 200,000 homes across 53 cities were announced en masse in a single day. The government's accelerating focus on this sector is

Developers: Rising impetus

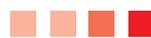
- Infrastructure status = Lower funding costs
- FY16 budget: 100 per cent deduction of profits on low-cost housing projects (30 sq metres in 4 metros, 60 in other towns) completed in five years.
- Exemption of service tax for builders of sub-60-sq-m affordable homes
- Complete pass through of income tax on such projects to securitisation trusts
- FY17 budget: House size to be counted on carpet and not 'super' (built up) area, enabling larger apartments for the middle classes to also fall into affordable housing

more holistic than a bulk of initiatives seen thus far, encompassing each stakeholder in play. First, at the end of supply, by giving affordable housing infrastructure status, this segment hitherto ignored by India's real estate developer community will begin to make economic sense to the private sector. The high cost of land and (albeit self-created in most cases) indebtedness has been a hard mix thus far. Discussions with IMA's members in the real estate and housing finance sectors yields palpable interest and planning, also building on their own need to diversify away from the over-supplied luxury and upscale home market. According to industry estimates, the cost of funding for land acquisition is likely to come down to 10-12 per cent. In addition, by ensuring that the credit subsidy is supplied to the lender upon loan disbursement, credit risk is reduced to some degree for both banks and housing finance companies. A slew of other initiatives should incentivise the real estate sector to convert slow-moving mid-tier projects into 'affordable' ones and to launch new ones.

The fact that the National Housing Bank has clearly been instructed to ensure improved functioning – subsidy reimbursements made thus far to housing finance firms are said to be remarkably prompt – is the key third prong at this end.

In the area of demand, the Credit-Linked Subsidy Scheme will potentially bring millions of first-time buyers into the market. The scheme now encompasses EWS, LIG and the so-called 'middle income group'. Admittedly, the last will benefit only those loans approved in the current calendar year, but even so, the immediate term growth impetus – again a need of the hour, is likely to be reasonably strong. Strikingly, the government has already received over 16.6 million applications for various types of CLSS loans. (First-time home buyers are now also eligible for additional

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tax deductions of up to Rs 50,000 a year on loans of up to Rs 3.5 million, on a home value not exceeding Rs 5 million).

India's under-penetrated home loan market will get a strong fillip, whose players have now begun active outreach, both among developers and prospective borrowers to create demand. A historically low mortgage-to-loan ratio of 9 per cent of GDP should begin to change, even if slowly.

The Central government is the sole driver at this juncture, but a number of states have now taken its cue and states like MP

and Rajasthan are in the process of announcing various low-cost housing projects in conjunction with the private sector. Maharashtra is apparently reconsidering Floor Space Index (FSI) norms in the affordable housing space. All put together, a KPMG study indicates a prospective investment of USD 1 trn in this space by 2022. The intent therefore, is clearly strong, industry response is adequate and consumers are beginning to bite.

The scale and volume projected, however, will demand huge capacity creation, both at the regulator end and within industry. On the count of the former, the new Real Estate Development and Regulatory Act 2016, in its construct, is a good start (although it is early days yet – it has only come into effect on the 1st May) for both consumer interest and to push formalisation and transparency in the sector (over 76,000 firms). Regulation will, however, need to become even more holistic. Illustratively, the fast expanding housing finance sector must be monitored for credit quality. ICRA estimates suggest that the affordable housing finance segment grew by a sharp 28 per cent in FY16 (more than double the overall housing finance growth of 13 per cent, even if on a small loan-book base of Rs 960 bn). Smaller, newer firms led that growth, growing by 82 per cent that year. Indeed, from 56 Housing Finance Companies (HFCs) in FY13, India now has 82, with another 6 applications under process. Whilst many of

Category of borrower	Interest rate subsidy
EWS, LIG (loans up to Rs 600,000)	6.5 per cent up to 20 years
Middle-income (household income of Rs 600,000-1.2 mn)	4 per cent on loans up to Rs 900,000 approved in CY 2017
Upper middle-income (household income of Rs 1.2-1.8 mn)	3 per cent on loans up to Rs 1.2 mn approved in CY 2017

the smaller HFCs have fine-tuned business models to better screen clients for credit risk (including personal interviews to validate data and information) and improve collections, some, like Xrbia, are starting to get into the risky 'no income proof required' category of buyers. Anecdotal evidence (data for unlisted firms is hard to come by) suggests that, at the very low end of the market – home loans of Rs 200,000 or less – default rates have recently been as high as 40-50 per cent for both specialised HFCs and major banks. The Basel-based Financial Stability Board (FSB) recently advised the RBI to tighten its oversight of NBFCs, including HFCs.

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Not surprisingly, while the large, traditional HFCs – such as HDFC, India Bulls and Dewan Housing Finance – had gross NPAs of 0.7-0.9 per cent in FY16, for newer players, the ratio was as high as 2.4 per cent.

Thus far, firms that have dealt in affordable housing also charge about 2 per cent more on loans than prime HFCs (largely to offset the smaller ticket size of loans). Whilst much of this will change with the recent credit subsidy, both these elements put together could build into larger-scale default, should a property bubble get built – and eventually burst.

At the end of industry, it remains to be seen whether these remarkable policy initiatives will actually flow outward to expand India's urbanisation phenomenon beyond its largest cities (the top 65 really) and the districts that agglomerate around them. That is the need of the hour, to create many more urban



centres beyond the already stretched big cities and their surrounding metropolitan areas. So far, the incentive for India's larger players in the sector – many of whom actually carry implementation capability – to go beyond these areas (which also become more viable now) to India's smaller cities is not graded in favour of the latter. There may have been merit to consider the same. One must hope that demand itself will be a good enough driver for this outward spread. The fact of multiple new players coming up in these states is symptomatic and heartening but their experience in implementation will remain to be seen.

Be that as it may the pressure

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on India's top 65, and then top 400, towns (that have more than 100,000 in population), is likely to stay. There is a dearth of reasonably priced land parcels that are both large enough for major developers to step in, and well located, with good connectivity to big industrial or service-sector job clusters. In the absence of reliable rapid-transit systems that can connect outlying areas to the workplace, few buyers are willing to commit their hard-earned money to such projects. That said, this too could change in the coming years, given the government's big infrastructure push.

The issue of urban blight in light of weak town planning across the states of India's union, and outdated urban development rules is equally real. As these projects get underway, these issues will become even more pertinent for state governments to resolve, and industry to partner on. To its credit, the PMAY prioritises housing for women applicants and the differently abled. It also encourages 'eco-friendly' building, but details are thus far not entirely clear and likely to be recommendatory, not mandatory. It will then fall to India's states, to enable not just housing, but easier living in India's cities. Complementary infrastructure is

fundamental – and thus far, wanting. This is despite effort in many states, simply because the pace of urban population growth is stronger than infrastructure creation. The accountability of India's municipal management bodies is an additional factor.

Illustratively, a major issue with clearing urban slums – such as Mumbai's sprawling Dharavi neighbourhood – is that dwellers often refuse to move to alternative low-cost accommodation, which is usually far removed from urban centres, transport connections, and therefore from the workplace. A nascent partnership between governments and the private sector to re-develop slums is evident across states. Maharashtra, for instance, recently amended its town planning laws and set up a Slum Rehabilitation Agency to hand over land in unauthorised colonies to private developers, in return for them building one-room housing units. The Union Finance Minister unveiled a similar programme for slum clusters in Chandigarh, a Union Territory. These have been tried before, albeit in different ways. And they have failed. Going forward, fair rehabilitation and beating multiple vested interests, will have to be very carefully managed. A skittish private sector can else take flight all too easily.

All said, through the narrowest lens, affordable housing is a route to unlocking growth in multiple sectors linked to construction, itself a big job creator thus far. Through the broader, more important lens, it is the route to giving the security of a home to millions of Indians, who have thus far not been able to even dream of the possibility. One must hope that this high-potential sector's many stakeholders will follow through on the Central government's intent in both letter and spirit. ■

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