

Affordable Housing in India*

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Abstract - The Government of India (GOI) had estimated a shortage of more than 18.78 million homes at the beginning of 2012, of which 95% were in the EWS (Economically Weaker Sections) and LIG (Low Income Group) segments. Further, the country's total urban housing shortage is projected to be about 30 million by 2022. The Indian Government currently faces an uphill task of providing for more than 2 crore dwellings by the year 2022, which translated to almost 3 million units per year to fulfill its electoral promise of 'Housing for All by 2022'. To achieve this daunting target the government has taken various initiatives to make the affordable housing segment lucrative both for the private developers and the homebuyers. This research paper aims at assessing the impact of the government initiatives on both the parties, i.e., the private developers and the homebuyers and tries to encapsulate their views on the government policies to boost the segment.

Keywords— Affordable Housing, GOI, Pradhan Mantri Awas Yojna, Housing for All

I. INTRODUCTION

The demographic arguments for rising home sales in India have been long building. About 69 percent of the country's 1.3 billion people are in prime house-buying age -- 20 to 40 years -- more than any other nation, according to a Bloomberg Intelligence Report in April. Per capita income has grown at a compound annual growth rate of 10 percent for the past five years, according to CLSA's note in May. Demand for the affordable housing is at an all-time historical high, but it's the supply part of the equation that India's had trouble with. The growing migration of people to the urban areas has overwhelmed infrastructure, pushed up land costs, and led to housing shortages. Building costs have also risen in recent years and developers have concentrated on the luxury end where margins are fatter. Government funding has largely flowed to the rural sector.

To address this concern Prime Minister Narendra Modi broadened the reforms to foster construction and home buying under his "Housing for All" program, launched in June 2015. It aims to build 20 million urban homes and 30 million rural houses by 2022. Property has also to become the most affordable in two decades. However, the government knows that these efforts undertaken by it alone are not sufficient to succeed in this ambitious mission and thus, in order to achieve this daunting target, the government also seeks participation from the private sector. (Source: http://economictimes.indiatimes.com/articleshow/59010892.cms?utm_source=contentofinterest&utm_medium=te xt&utm_campaign=cppst)

II. OBJECTIVES

The objectives of this research paper are:

- a) To analyse the various initiatives taken by the government to give a boost affordable housing sector
- b) To study the impact of government policies on affordable housing segment
- c) To understand the views of developers and buyers on the government policies
- d) To provide suggestions to the government regarding future improvements in its policies relating to the affordable housing sector

III. RESEARCH METHODOLOGY

The paper is based on both on primary and secondary market data. Secondary data was collected from government policies like, the *Pradhan Mantri Awas Yojna, Housing for All by 2022*, real estate industry data from research reports of *magicbricks.com*, etc. Primary research was conducted by asking a set of different questions from both, the developers and the homebuyers. A different set of questions was prepared for both the parties to understand the precise impact of government policies on each stakeholder.

IV. OVERVIEW

Initiatives taken by the Government

Despite a widespread shortage of affordable housing in India, private interest in the space has been negligible. Private developers have largely stayed away from this segment because of thin margins, mainly due to the high land and finance costs, and taxes, which makes the project non-feasible for them.

To overcome this challenge, the government has tried to make the affordable housing segment more rewarding for private player participation by introducing a slew of measures in the union budget presented this year.

- 1) The government has granted the much desired 'infrastructure tag' to the affordable housing segment, which means the sector can now benefit from lower borrowing rates, easy and dedicated access to institutional financing, and higher limit on the external commercial borrowings. This means that the borrowing costs for the project construction can go down drastically to 10% p.a. from the current

rates ranging anywhere from 12%-16% p.a. or even higher in case of borrowings from NBFCs. This will significantly reduce the burden on the debt laden sector which is struggling to raise fresh funds for new projects. The lower borrowing costs will lead to savings for the developer which will be indirectly passed on to the buyer making the property cheaper for him.

- 2) The Budget has also provided for 100% deduction for profits from the affordable housing projects, however the minimum alternate tax will apply. This move is expected to generate 15-20% more profit for the developer, hence providing him more margin and scope to make the project viable.
- 3) The government has also increased the maximum unit size under the affordable housing scheme to 30 sq. mtr. (carpet area) for metropolitan cities, and 60 sq. mtr. for other cities. This is a 30% increase from the previous mentioned sizes which were based on built-up area. This implies that the developer will now have more saleable area to avail the benefits of affordable housing scheme.
- 4) The government has also increased the maximum time to complete the project to 5 years from the current 3 years. This gives more breathing margin to the builder as he is already struggling from sluggish sales and liquidity crunch. Also, it gives more time to the developer to compensate for delay in statutory approvals which is a norm in most of the states in India.
- 5) The government has exempted service tax on affordable housing units. Currently there is a service tax of approximately 5% on under-constructions units, which must be paid by the buyer. Exemption of service tax for affordable housing units will generate interest of the buyer in under-construction properties compared to completed properties on which service tax is not applicable. Exemption from service tax will reduce the final price to be paid by the buyer.
- 6) The revised *Credit Linked Subsidy Scheme (CLSS)* provides an interest subsidy of approximately Rs. 2.5 Lakhs for first time home buyers. Under this scheme, Interest subsidy of 4% will be provided on loans upto Rs. 9 Lakhs for construction/acquisition of house with carpet area of up to 90 sq. metres for those with income of up to Rs. 12 lakh per year, and Interest subsidy of 3% will be provided on loans upto Rs. 12 Lakhs for construction/acquisition of house of up to 110 square metres for those earning between Rs. 12 lakh and Rs. 18.00 lakh per year. Although this scheme is not restricted to the affordable housing segment and can be availed under other projects as well, but it is expected to give a major boost in demand for affordable housing

units to the buyers as it significantly reduces the cost of borrowing for the buyer making it cheaper for him to own a house.

- 7) The central government has also written to state governments to provide more benefits to the segment by exempting affordable houses from stamp duty which ranges anywhere from 5%-7% in the NCR region. Stamp duty is a state subject, with the state government fixing the rate and collecting the duty. If the state governments agree to such changes, then it will be a game changer as it will drastically reduce the final cost of the product to the buyer. By providing these exemptions from their end, the states can contribute to the centre government missions.

All these policies are set to make the affordable housing segment very lucrative and exciting for real estate developers, but there are a lot of loopholes in the policy, which need to be taken care of.

V. RESULTS OF CONSUMER SURVEY

Survey of the Home Buyers

1. What is your age?

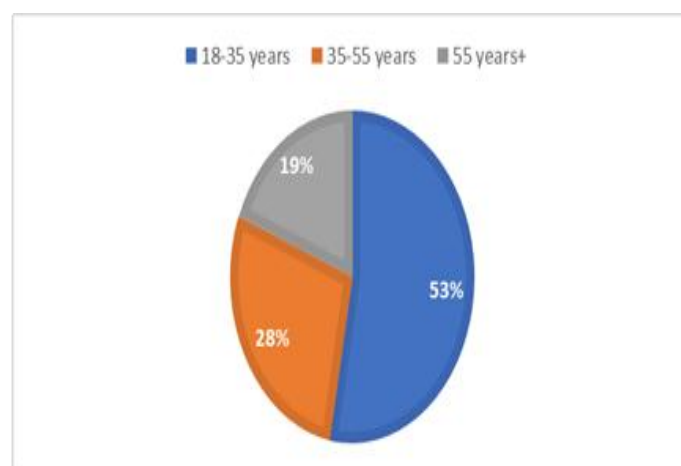


Fig. 1: Majority of the buyers belongs to the category of 18-35 years. The purpose of taking this set of buyers was to ensure that majority of the population falls under the category which is yet to make its first home purchase and at the same time has the capacity to make a purchase due to their earning factor.

2. What is your annual income?

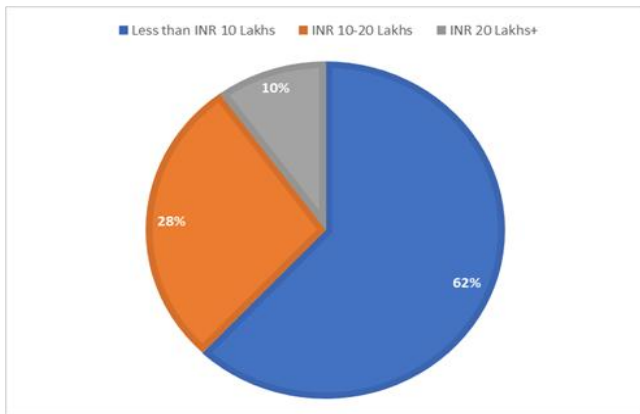


Fig. 2: It was seen that majority of the respondents earned less than INR 10 Lakhs annually. The government is also targeting the same income bracket consumers as it identified this category as the biggest beneficiary of its affordable housing policies.

3. Are you the sole earner in the family?

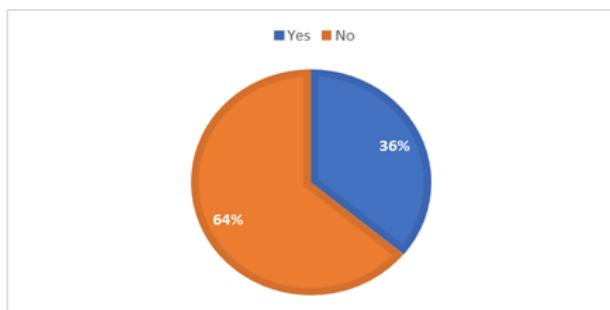


Fig. 3: The survey found that 64% of the respondents had other earning members in their family. This made them more likely to buy a new home as increased income in the family will be required to take care of the home loan financing costs.

4) Do you own or rent a house?

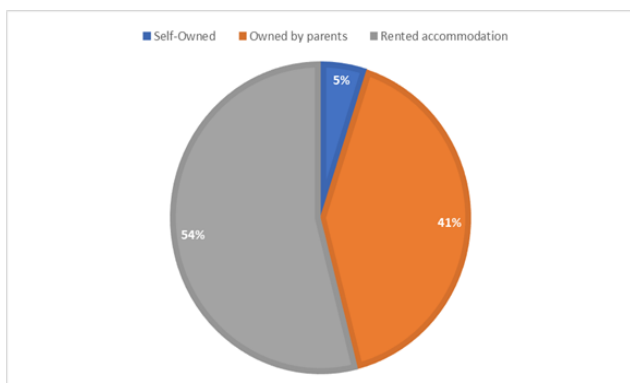


Fig. 4: It is seen that not even a single respondent owned his house. Most of them lived in rented accommodations. This is the category where the biggest impact of government policies can be seen.

5) Do you live in an urban or rural area?

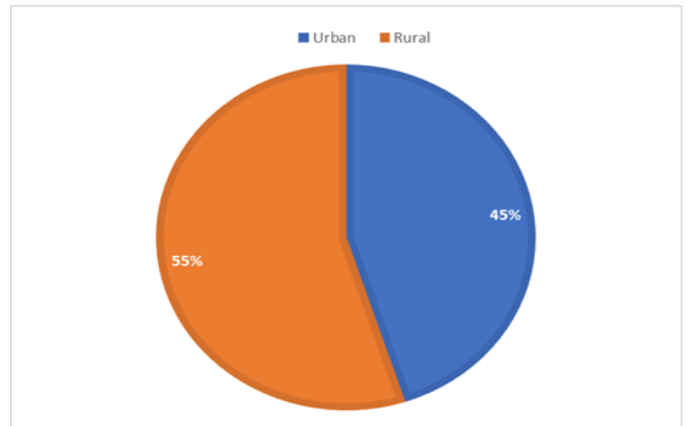


Fig. 5: 55% of the Respondents live in rural or semi-urban areas. Most of these people look out for jobs in urban cities and intend to be the target buyers for the affordable housing segment.

6) Do you think that the government has taken sufficient initiatives to give a boost to affordable housing?

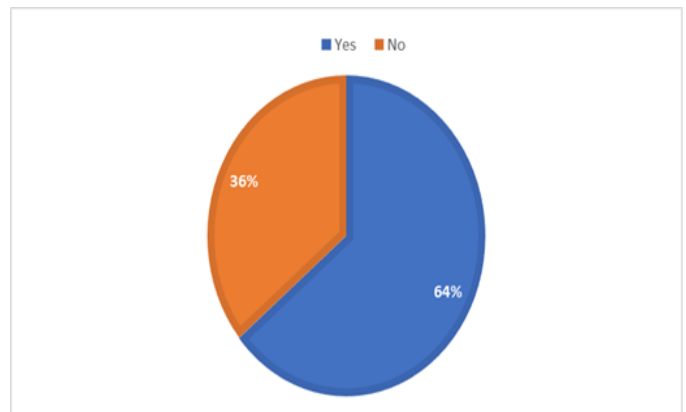


Fig. 6: Majority of the respondents feel that the government has taken good initiatives to boost affordable housing. They think that if applied properly they can benefit a lot from this move of the government.

7) Do you think there is scope for more improvement in the affordable housing policy by the government?

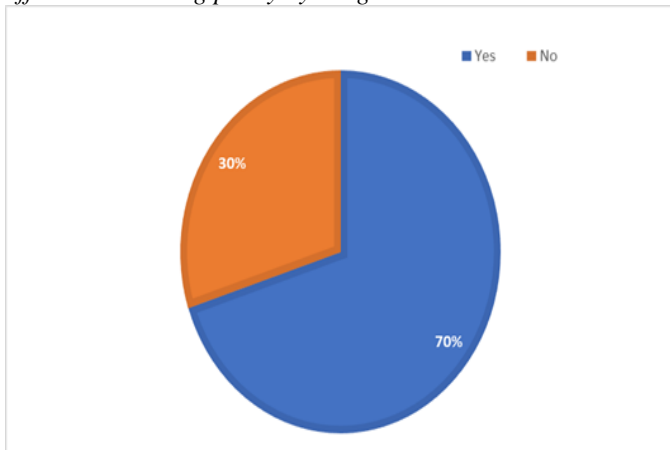


Fig. 7: Even though most of the respondents are satisfied with the government policies but they still think that more steps can be taken by the government in this direction.

8) Do you think that government policies will bring down the cost of housing for the consumer?

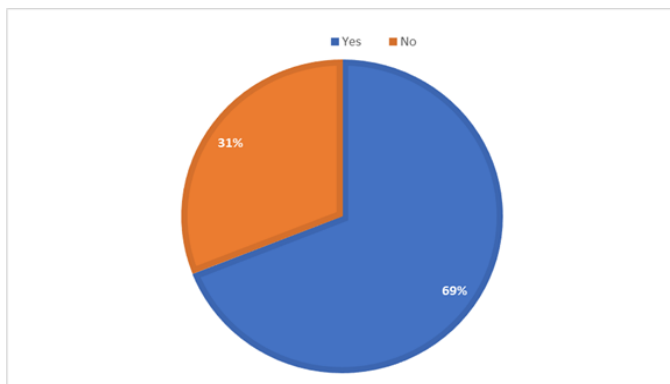


Fig. 8: Majority of the respondents feel that government policies like interest rate subsidies on loans, exemption of service tax, etc. will bring down the cost of homes and will make it easier for them to make a purchase which was not possible earlier.

9) What do you think is the most important initiative by the government?

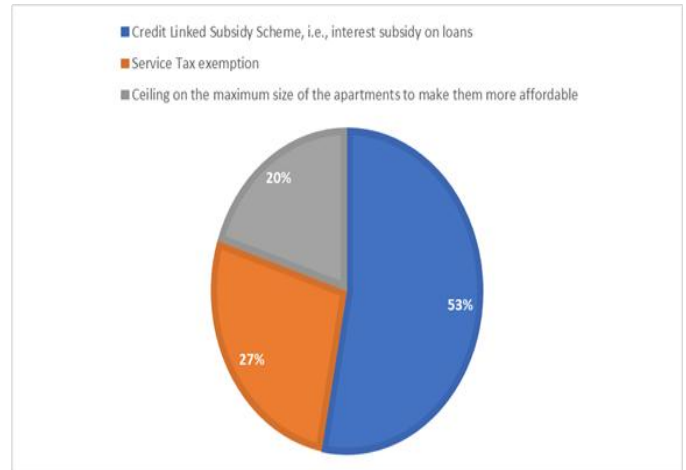


Fig. 9: More than half of the respondents feel that Credit Linked Subsidy Scheme which provides interest subsidy to the buyers and credits this subsidy directly into their accounts is the most crucial initiative taken by the government. This cuts down the cost directly by approximately INR 2.5 Lakhs.

10) Do you think the government will succeed in its Housing for All by 2020 mission?

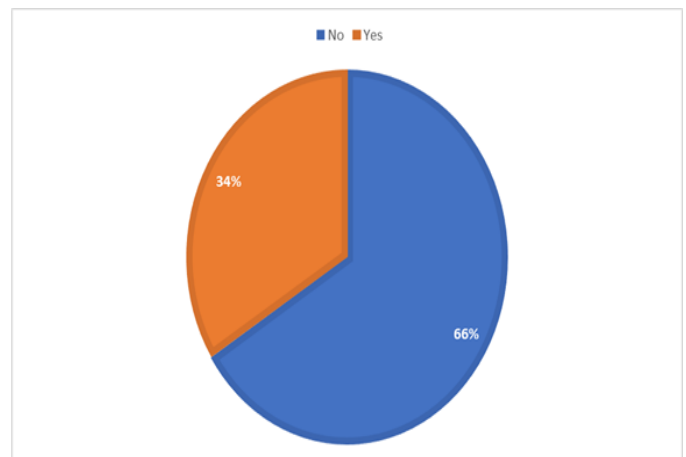


Fig. 10: Despite appraising the government's moves, the respondents feel that the government has set itself a very ambitious mission and the time frame is very short to achieve this target seeing the current level of demand in the country.

11) Who is the most trusted developer in the housing segment?

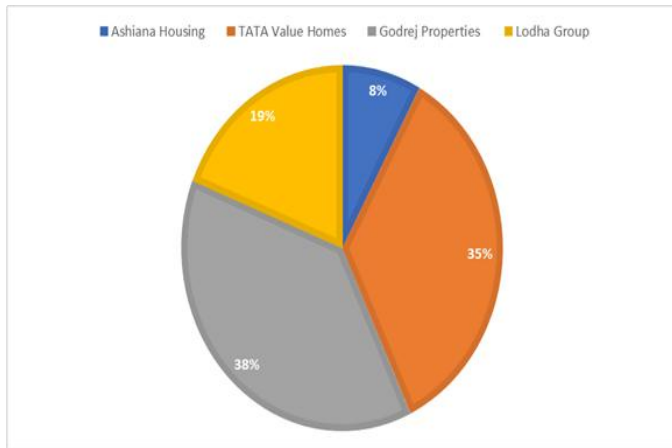


Fig. 11: Most of the respondents had different perceptions about developers and 38% felt that Godrej Properties was a better developer compared to its competitors when it comes to trust. The major reason for this was the ethical brand value Godrej Group has developed in its 100+ years of legacy.

12) Are you aware of the Affordable Housing benefits provided by government to the buyer?

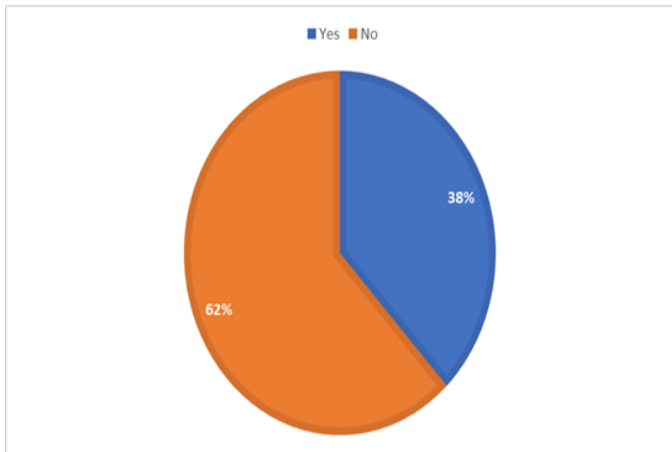


Fig. 12: More than 60% of the respondents were not completely aware of the government policies. This shows that the government needs to spread its reach in conveying the benefits of its policies to the stakeholders. The success of the initiative lies in successful adoption and utilization by the prospective homebuyers.

13) Which is the most important relief required from the State Government for buyer to boost affordable housing demand?

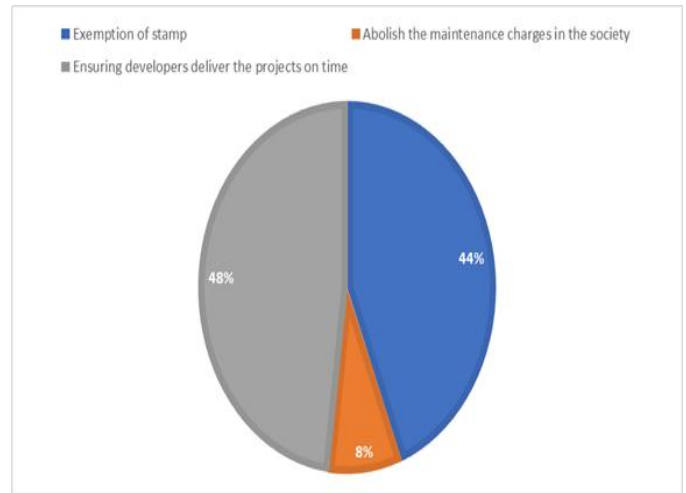


Fig. 13: The state government also needs to take certain measures to give its support to the Central Government's initiatives. Majority of the respondents felt that the state needs to tighten its control on the delivery timelines of developers and must ensure that the buyer gets their homes on time because otherwise it increases the cost to the buyer as a delay in giving possession by the developer means that the buyer will have to pay both rent and EMI simultaneously.

Survey of Developers

A. Do you think that the government has taken good initiatives to give a boost to affordable housing?

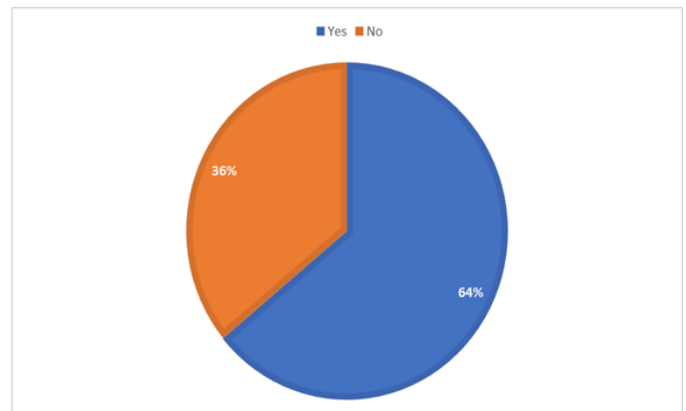


Fig. 14: Most developers agreed that the government was moving in the right direction when it comes to the policies for the affordable housing segment.

B. Do you think there is scope for more improvement in the affordable housing policy by the government?

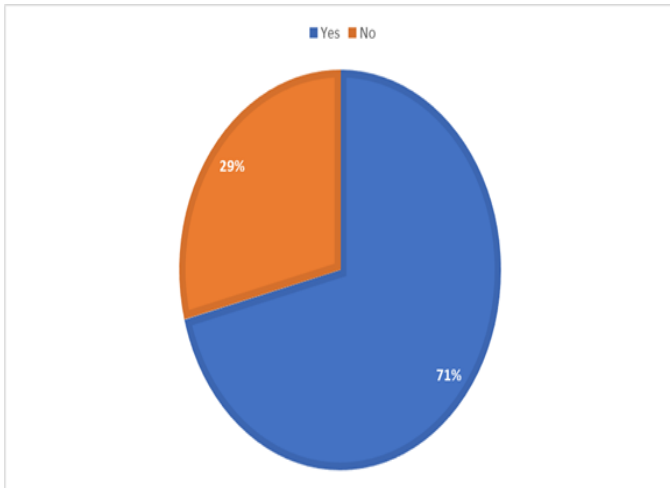


Fig. 15: More than 70% of the developers feel that there is a scope of improvement in the government policies, which can further boost the demand in the sector.

C. Do you think that government policies will bring down the cost of housing for the consumer?

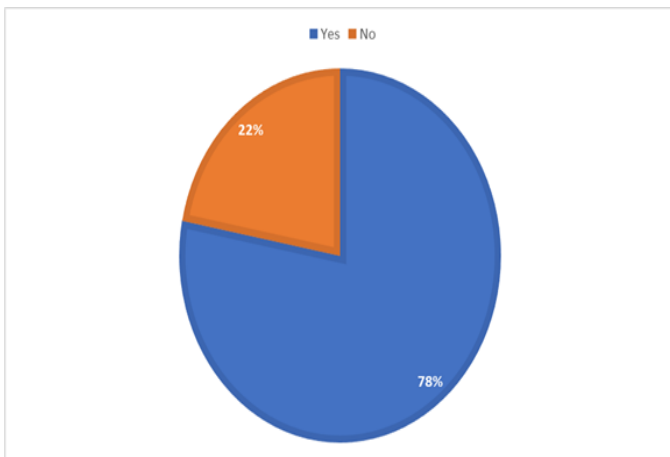


Fig. 16: Majority of the developers think that the government has taken good measures to bring down the cost of homes for the buyers.

D. What do you think is the biggest motivation for the developer to enter the affordable housing segment?

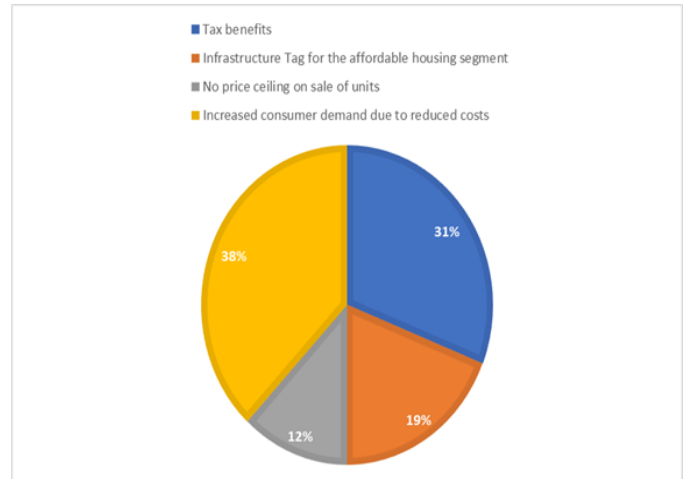


Fig. 17: The developers feel that due to the benefits provided to the buyers by the government, there has been an increased interest and demand for affordable units from the buyers. This increased demand has become an indirect motivation for the developer to increase his presence in the segment.

E. Do you think the government will succeed in its Housing for All by 2022 mission?

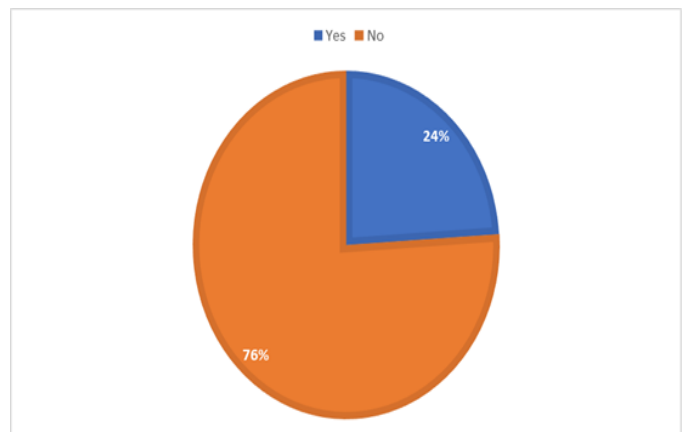


Fig. 18: Most developers were wary about the government achieving its targets as they felt that the resources and time frame are not sufficient at present to achieve this target.

F. What price segment of apartments is most popular amongst consumers?

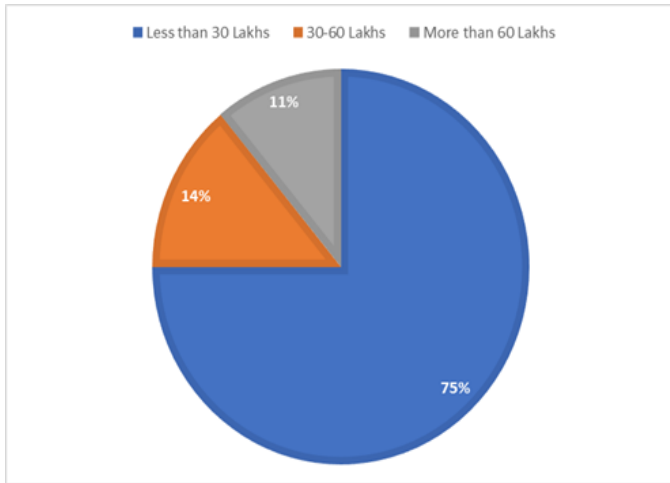


Fig. 19: The developers state that almost 2/3rd of the demand comes from less than 30 Lakh price tag categories. This is a motivation to enter the affordable housing category.

G. What is the most challenging issue in implementation of Affordable Housing for the developers?

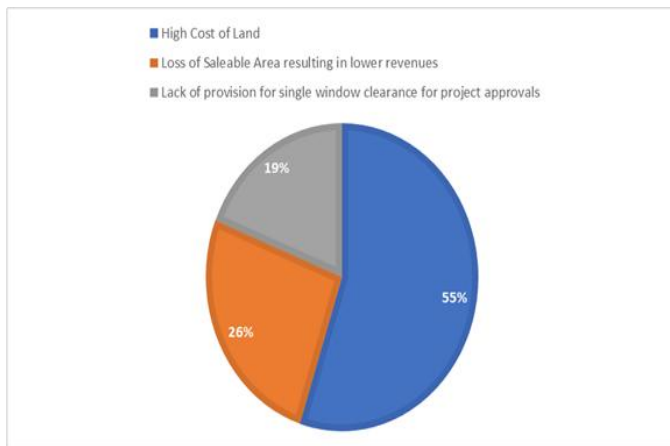


Fig. 20: More than half of the developers feel that the high cost of land is deterring the success of affordable housing in the country. The developers demand land at subsidized rate to make the affordable housing projects financially viable for them.

H. What benefit should the State Government provide to the developer to make affordable housing more lucrative?

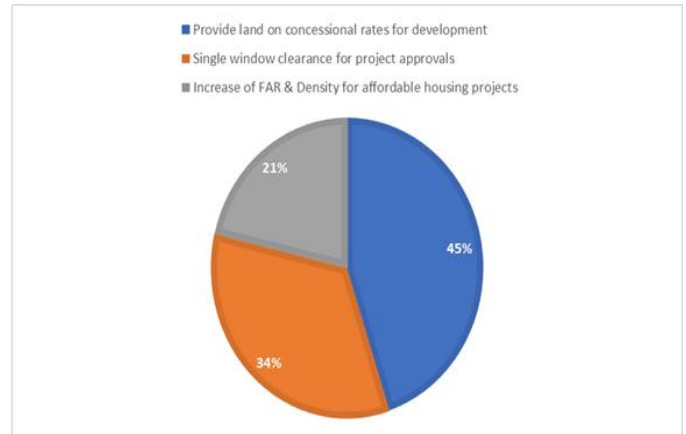


Fig. 21: Developers suggest that the government needs to provide land at concessional rate, but at the same time it needs to provide a single window clearance to get project approvals as very often it is seen that delay in project approvals due to government authorities delay the projects indefinitely increasing the cost of holding for both the developer and the buyer. Developers also suggested that there is a need to increase the Floor Area Ratio (FAR) and density, i.e., number of units that can be built on a parcel of land. This is necessary to generate sufficient revenue as otherwise there will be a loss of saleable area for the developer making it financially unviable. Also, higher FAR would mean more development on a parcel of land, and higher density means smaller unit sizes. Both these factors are beneficial from the consumer's point of view as well.

VI. ANALYSIS OF THE GOVERNMENT POLICY

Currently the policy says that to register a project under the policy, the units of the project should be within the size limit of 30 sq. meters for the metro cities and 60 sq. meters for others. The numbers of units that can be planned in a project depend on the density designated by the local authority of that locality.

For example, a sector in Noida has a density of maximum 366 flats per hectare. Due to this, the builder has to plan a mix of big and small sizes of units so that he is available to utilize the complete Floor Area Ratio (FAR) of the project, which roughly defines the total saleable area of the project.

Now, if the builder decides to go under the affordable housing scheme, then he has to plan at least 90% units of 60 sq. meters or less. Going by this rule, the builder will not be able to achieve the complete FAR as the maximum units can only be 366 but since the sizes of 330 units has to be smaller than 60 sq. meters his total saleable area will be much less which could have been more if the units could have been of bigger sizes. An easy solution for this is the local authority must grant higher density to the affordable housing projects, so that builder can build more units in the same area of plot and achieve his total FAR. By not achieving complete FAR, the project viability of the builder becomes negative in most

cases. This issue must be resolved between the central and state governments to make affordable housing viable for the developer.

This can be explained by the following example:

Plot Size	20000	sq. mtr.
FAR	3	
Total Saleable Area	60000	sq. mtr.
Density set by Noida Authority	366	Flats per hectare
Available Density in project of 20,000 sq. mtr.	732	Flats
Size restriction on flat under Affordable Housing Scheme	60	sq. mtr.
Maximum Flats Possible as per Affordable Housing Scheme	1000	
Maximum Flats Allowed by Noida Authority	732	
Maximum area possible under Affordable Housing Scheme	60000	sq. mtr.
Maximum Area Possible as per Noida Authority	43920	sq. mtr.
Loss of Saleable Area for Developer	16080	sq. mtr.
Loss of Saleable Area for Developer (in %)	26.80%	

The introduction of *GST* can also create another hurdle for the affordable housing segment. Currently the developer gets abatement in service tax to the tune of 75% considering the cost of land in the final product price. However, *GST* does not currently provide for abatement for land. Due to this the cost of housing will go up for the buyer, as he will have to pay for *GST* on the entire consideration amount. Since, service tax was exempted on affordable housing, it is to be seen if affordable housing will also be out of purview of *GST* and moreover if *GST* will provide for abatement or not is also to be seen.

One of the major loopholes in the affordable housing policy is that it defines the restrictions by the size of the unit rather than by the maximum price of the unit. This means that a developer can price the unit at any price if it is under the size of 60 sq. meters. This defeats the purpose of affordable housing because developers can take all benefits of affordable housing and yet price their product at a price, which is beyond the purchasing capacity of the buyer.

The government also needs to provide single window clearance for affordable housing projects to keep the price under control. Currently the various approval authorities of state governments cause long delays in completion of projects due to which the cost of the project can go up to as high as 3% per year of delay. If the government wants to ensure timely completion of projects at minimum costs so that it

could be passed on to the buyer, it must take the clearances under its own hand and aim for a single window clearance body.

The high cost of land is one of the major deterring factors in providing the low cost homes. The state governments need to increase the FAR for the plots under the affordable housing scheme. By increasing FAR, the cost of FSI will go down drastically for the developer. More FAR means saleable area or higher turnover for the developer. If this is implemented then the developer can earn his share of profits through higher turnover even with lesser margins per unit.

VII. CONCLUSION & RECOMMENDATIONS

The current government policy on affordable housing are a boon to the home buyer and developer as it provides them subsidized loans, service tax exemption, tax exemptions, and possible stamp duty exemptions, but at the same time it does not give enough breathing margins to the developer which is required to successfully complete and deliver a project.

If the state governments successfully implement the measures suggested by central government for the affordable housing projects like, providing single-window clearance, pre-approved building permission and layout approval system, additional FAR, and higher density, it will give the developers a desired margin and will help them in completing the projects in time without the unnecessary delays caused due to multiple approvals.

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