



## Core Issues and Challenges of Affordable Housing in India

### KEYWORDS

Affordable Housing, economic growth, neighborhood, macroeconomic GDP, urbanization, anti-poverty programmes, Land Monetization, transparency and credibility, leapfrogged locations, NPA and credit risk, Single-window procedure

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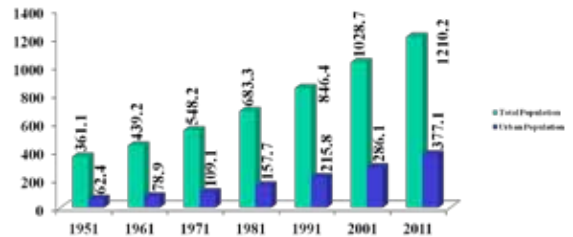
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**ABSTRACT** Urbanization is generating a massive housing shortage and the growth of slum conditions in India. This growing concentration of people in urban areas has led to problems of land shortage, housing shortfall and congested transit and has also severely stressed the existing basic amenities such as water, power and open spaces of the towns and cities. This is primarily due to the skyrocketing prices of land and real estate in urban areas. Development of large-scale affordable housing is the greatest necessity of urban India today. The objective of creating affordable housing is to provide adequate Affordable Housing 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. While the concept of affordable housing seems to be a simple solution to current housing woes, its execution remains complicated due to the unclear policy framework. To make affordable housing work in India, it would require “will” from all the stakeholders by slightly adjusting their interests towards a wider social cause.

### INTRODUCTION

Housing is a key input in economic, social, and civic development. Housing investment is a major driver of economic growth. On the social side, housing is, after food and medical care, the first need of vulnerable populations following natural and man-made disasters. In better times, good housing builds wealth by appreciating in value, providing a hedge against inflation, providing secure premises for income-generating activities, and opening the door to credit.

As per 2011 census, the country had a population of 1,210.98 million, out of which, 377.10 million (31.16%) lived in urban areas. During 2001-2011, the urban population of India grew at a CAGR of 2.8%, resulting in the increase in level of urbanization from 27.81% to 31.16%. This growing concentration of people in urban areas has led to problems of land shortage, housing shortfall and congested transit and has also severely stressed the existing basic amenities such as water, power and open spaces of the towns and cities. Urbanisation has resulted in people increasingly living in slums and squatter settlements and has deteriorated the housing conditions of the economically weaker sections of the society. This is primarily due to the skyrocketing prices of land and real estate in urban areas that have forced the poor and the economically weaker sections of the society to occupy the marginal lands typified by poor housing stock, congestion and obsolescence. Considering these factors, there currently exists a wide gap between the demand and supply of housing (both in terms of quantity and quality) in urban India.



**Urban Population: Six times in Six Decades. Total Population Increase 3.4 times**

### Urban Housing Shortage

According to estimates of the Technical Group constituted by the Ministry of Housing and Urban Poverty Alleviation (MHUPA), the urban housing shortage in the country at the end of the 11th Five-Year Plan was estimated to be 24.71 million for 66.30 million households. The group further estimated that 88% of this shortage pertains to houses for Economically Weaker Sections (EWS) and another 11% for Lower-Income Groups (LIG). For Middle- and High-Income Groups (MIG and HIG), the estimated shortage is only 0.24 million.

Sr No.	Category	Shortage (in millions)
1	EWS	21.74 m (88%)
2	LIG	2.71 m (11%)
3	MIG+HIG	0.24 m (1%)
4	Total	24.71 m (100%)

If the current increase in backlog of housing is maintained, a minimum of 30 million additional houses will be required by 2020. In India, private developers primarily target luxury, high-end and upper-mid housing segment, since it fetches a premium over low income housing. This leads to a sustained supply for this segment, increasing market competitiveness for developers. On the other hand, the housing for the poor and EWS is primarily provided by the government for welfare purposes. However, it is insufficient

compared to the existing shortage in the segment. Thus, it is the housing requirements of the lower middle-income and lower income groups that are grossly neglected, and there exists a huge dearth in the supply of affordable houses primarily demanded by this income group in India.

**Affordable Housing - Definition**

Affordable housing can be defined using three key parameters viz. income level, size of dwelling unit and affordability. While the first two parameters are independent of each other, the third parameter is correlated to income and property price, and hence can be termed a dependent parameter. While the above definition is a generic representation at an all India level, the actual definition of affordable housing may vary with regions and income levels.

Cat-egory	1. Income Level	2. Size of DU	3. Affordability
EWS	< Rs.1.5 Lacs p.a.	Upto 300 sq ft	EMI to monthly income
LIG	Rs.1.5-3.0 lacs p.a.	300-600 sq ft	30-40% House price to annual income
MIG	Rs.3.0-10 lacs p.a.	600-1200 sq ft	< 5.1 (Deepak Parekh Report)

**Affordable Housing - Current Challenges**

Land related: Availability Titles Laws Cost Using land as resources & Land Monetization	Governance Related: Too many approvals/ clearances Delay Corruption Lack of clarity Rent Control Act deterrent for rental housing
Finance related High cost of capital for builders Formal Sector not very comfortable in lending to Private sector High NPA and credit risk Availability of Home Loans for EWS/LIG	Developer & Construction related: Lack of transparency and credibility of Builder Lack of skilled manpower Technology Suitability Standardization of building components/ materials, Delays - time and cost overruns

**Affordable Housing – Suggested Solutions**

**Land Related**

One of the biggest questions that India needs to answer going forward is with respect to adequate supply of land for housing purposes. The Government’s vision of “Affordable Housing for All” will require acquisition / supply of large land parcels on a regular basis.

- Reduce land cost through ULB / State Govt. facilitation for land acquisition/allotment/re-adjustment
- Simplification of land related laws
- Reservation of 10-15% of land in every housing projects for EWS/LIG
- Registration to be transparent and e-enabled
- Title risk mitigation/insurance
- Land Pooling
- Cross-subsidies land for affordable housing segment

and use Land as a Resource for financing affordable housing & core Infrastructure

- Property tax
- Vacant land tax
- Land Transfer Tax
- Land Gains Tax
- Purchasable/Transferable Development Right
- Surcharge on Stamp Duty
- Development charges; Betterment charges; and Impact fee
- Additional FSI, TDR

**Governance related**

- Affordable Housing Policy be formulated by all States.
- Model Guidelines for regulation of land supply
- Encourage States to undertake urban reforms listed under the JNNURM
- On-line Approval of Building Plans & ‘Single-window procedure’
- Time-bound preparations of Master Plan with specific provision for low income housing and PPP
- Rent Control Acts may be modified as per Model Residential Tenancy Act, 2011
- Right to Service Act/Rules to cover Real Estate Sector
- Real Estate Regulatory Commission
- Incentives and encourage Private Sector participation - Rajasthan/Maharashtra Model
- Dissemination of Best Practices

**Finance Related**

- Cost of borrowing to be such that lending Rate by Banks/HFCs should be less than 10%.
- Credit to be made easily available for House providers as well as individual and community borrowers:
- Accessible , Cheaper, Long tenor & Micro Housing Finance
- State Housing Finance Company be created in line with Kerala & Rajasthan models – can also be Private HFC with equity stake of State Govt./NHB.
- More specialized HFCs, especially targeted towards urban poor
- Since repayment capacity is less, there is a need of subsidy for EWS/LIG;
- Leverage current resources available (HIG- EWS/LIG);
- Innovative financing mechanisms may be developed: PPP, JVs, REITs, REMFs, Micro-finance, fiscal concessions, Urban Housing Fund, etc.;
- Rental Housing and ‘Rent to Own’ Schemes;

**Construction Related**

- Bringing down cost of Construction for affordable housing supply
- ‘Working Capital’ advance may be provided to Contractors
- A ‘Delayed Payment Act’ may be formulated
- Cost-effective innovative building material and Technology for Affordable housing required
- Incentives & Rejuvenate State Public agencies through interest subvention: 4% interest subvention for project loans for affordable housing
- Incentives Private agencies through interest subvention: 2% interest subvention for project loans for affordable housing under AHP
- Skill Development Training to be intensified

**Innovative Suggestion**

- Disincentive for Bigger Houses (~Rs.1 cr. and above or 300 sqm. and above)
- Higher Plan Approval Fee

- Higher Registration Fee and Stamp Duty
- 1% Additional Interest on housing loan to be pooled by NHB for subsidizing affordable housing loans
- Income Tax concession on interest paid on housing loan may be withdrawn.
- Rental income concession for such houses to be withdrawn
- Priority Sector Lending limit for housing loans be brought down to Rs. 10 lakh ( 5 times of annual income for affordable housing)

### Conclusion

The objective of creating affordable housing is to provide adequate Affordable Housing 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 for the development of affordable housing. Private sector, which comprises residential developers, develops affordable housing projects and sells them in the open market. Government agencies such as Urban Local Bodies (ULBs) and Urban Development Departments (UDDs) are responsible for laying down guidelines and bylaws for affordable housing. Certain restrictions imposed by Ministry of Environment and Forests limit the use of land in urban areas for housing purposes, resulting in the lack of supply of land and thus higher pricing..

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