

# India Now

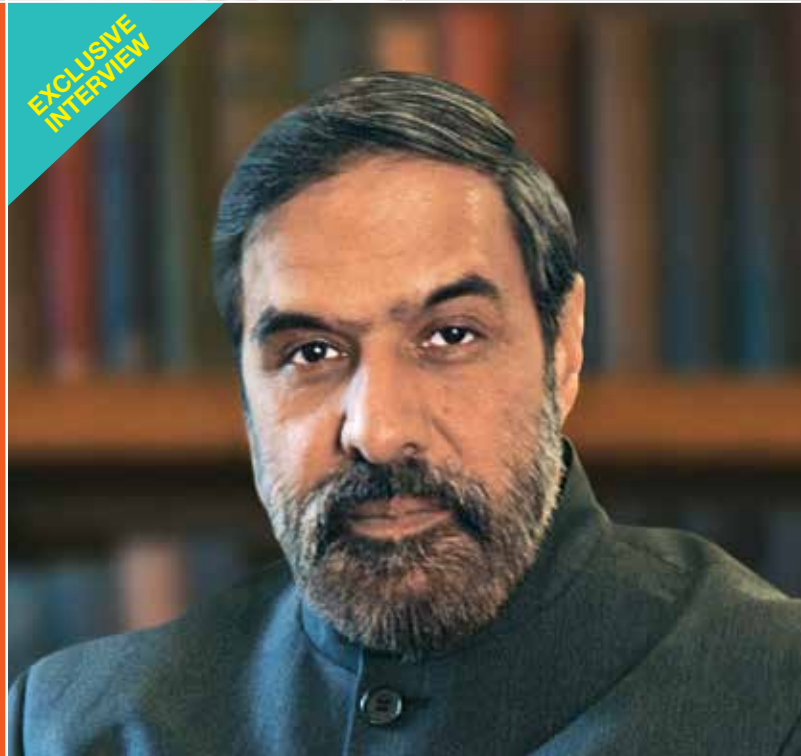
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AN ASPIRATIONAL  
NATION  
OF POTENTIAL AND  
PROMISE  
LAND OF LIMITLESS  
OPPORTUNITIES  
INDIA BECKONS  
THE WORLD

EXCLUSIVE  
INTERVIEW



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Minister of Commerce, Industry and Textiles, Government of India

## AFFORDABLE HOUSING

# MAKING HOMES AFFORDABLE

An offshoot of the economic slowdown of 2009-10, affordable housing or micro housing has become a crucial instrument in India's inclusive development agenda and is adding a new chapter to the country's real estate story.

By Madhusudhan Menon

**A**ffordability varies from income to income. Hence, there can be no real, fixed definition of it. However, to make matters simple and understandable, Micro Housing Finance Corporation Ltd (MHFC) has defined ₹10 lakh (US\$ 18,162) as the maximum value of a home and anything less than that, we consider to be low cost.

### Factoid: Different Parameters

KPMG and the Confederation of Real Estate Devel-

opers' Association of India (CREDAI) have jointly developed definitions of affordable housing for Tier I, II and III cities, based on three key parameters— income level, size of the dwelling unit, and affordability. For economically weaker sections (EWS) with incomes less than ₹1.5 lakh (US\$ 2,743) unit sizes of 300 sq ft are considered affordable with the ability to pay equal monthly instalment (EMI) amounting to 30-40 per cent of monthly income. For lower income group (LIG) with incomes between ₹1.5-3





lakh (US\$ 2,745-5,486) units of 300 to 600 sq ft have been deemed affordable. For middle income groups (MIG) with incomes ranging between ₹3-10 lakh (US\$ 5,486-1,8288), housing units of 600 to 1200 sq ft with price to annual income being less than 1.5 times are considered affordable.

### Micro Housing & Micro Mortgages

Micro housing finance is vastly different from micro-finance and microcredit. Firstly, we call it micro

mortgages and the credit terms are to individuals, not to groups like in microfinance. While microfinance is credit generally to a group of five-six people, micro mortgage, on the other hand, is a straight one-on-one lending to people. Secondly, the financing company is always secure, in the sense that it gets the formal security of the house being financed. Third, micro housing loans are for 10-15 years, while microfinance loans are for a much shorter term. Not insignificant is the difference in loan amount.

Micro housing loans go up to ₹8-10 lakh (US\$ 14,631-18,288) but microfinance loans are much smaller at ₹10,000-15,000 (US\$ 182-274). Another big difference is that the micro housing sector is fully regulated by the National Housing Bank. These are some of the key differences between the two.

### New Trend

That micro housing finance is a relatively new concept in India is evident from the fact that MHFC, which was one of the first companies in the field, is just four-and-a-half years old.

### Factoid: Call of Times

Liquidity crunch faced by homebuilders in the wake of the economic downturn gave birth to the concept of affordable housing in India.

There is a large demand for micro mortgages and micro housing from people, who are making a fair amount of money but have no access to formal finance. It is a different approach to the business in the sense that most banks or financial institutions tend to rely on the loan applicant's income certificate or tax returns

to gauge his ability to repay. Most often, such customers neither have an income certificate because they are self-employed, nor do they file tax returns because they fall below the taxable income bracket. Micro housing institutions, therefore, have to rely on their own understanding of the applicant's ability to repay based on what they do for a living, how much they earn, how volatile their income is and how affordable their monthly instalment is. So over a

period of time, we at MHFC, have developed some tools to assess, let's say a vegetable vendor's income, depending on his location, on what he actually sells and the size of his family—to understand what kind of monthly instalment he can afford.

### Huge Market

The market out there is huge. It is three times the size of the normal mortgage market or even larger, given the government's estimates that 25 million homes (2010) need to be built to cater to the current demand. Add to it the rising demand every year with

more and more people migrating to cities and families becoming nuclearised—the demand for smaller ticket size housing is expanding exponentially.

### Factoid: Fast Growth

The potential market size for affordable housing in urban India is forecast to grow about 1.5 times from an estimated 25 million households in 2010 to 38 million in 2030. Maximum potential is believed to be in the rich Tier I cities that have a considerable mass of lower income groups, and in lower income Tier IV cities.

Given the incredibly huge market size, the major challenge is how to connect with this block of mostly informal people, who do not have a trail of financial history nor possess documentation of their current income. This creates some of the biggest impediments in service to this segment. One thing is sure, the government understands the huge need that exists and the compulsion to address it. Hence, we need to encourage and incentivise builders to look beyond the admittedly more profitable larger projects and build for this underserved community.

### Factoid: Micro Housing, Major Boost

**Rapid urbanisation:** India's urban population will grow to 590 million by 2030, at a compounded annual growth rate (CAGR) of 2.4 per cent between 2010 and 2030. The percentage of urban-to-total population is forecast to increase from 30 per cent in 2010 to 40 per cent by 2030.

**Rising demand:** Premium homes in Tier I cities have become largely unaffordable, increasing demand for affordable homes.

**A culture of home ownership:** The local Indian culture has an inclination towards home ownership.

**Healthy economic fundamentals:** It is being forecast that the Indian economy will register robust and sustained growth rates over the next few years. Higher levels of economic activity will likely translate into higher personal disposable incomes. Moreover, well-timed monetary policy measures, coupled with an anticipated softening of international commodity prices, could lower India's inflation rates significantly between 2010 and 2015. Consequently, the real purchasing power of an average Indian is likely to get a boost. This, in turn, could trigger a growth in the demand for affordable housing. Additionally, lower inflation expectations are likely to check interest rate hikes, thereby accelerating the demand for real estate.

### Attractive Avenue

The huge demand for micro housing in itself is not a challenge. It has made a beginning, with many entre-

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—Madhusudan Menon  
Chairman, Micro Housing  
Finance Corporation Ltd

preneurs seeing a great opportunity in this segment because of the undermet demand on the one side and the fact that no sooner are the houses built, they are sold. Builders do not have to wait for customers. Building regulations in India are complicated, requiring several approvals which take up anywhere between one to three years leading to time lag and build-up of housing cost. However, the government acts as an enabling agent because of its deep understanding of what needs to be done. A transparent and efficient process enables deliverance of affordable houses.

### Factoid: Initiatives Pique Interest

In addition to the inherent growth fundamentals of India's affordable housing market, recent initiatives taken by the government have generated much buzz among developers. These measures include fiscal policies such as interest rate subsidies and tax allowances, and better institutionalisation of the real estate financing practice. Affordable housing offers more a volume gain than a value gain. A builder can complete seven projects in a year and sell them all off instead of doing just one expensive project and wait for it to be sold. Money gets circulated much faster with better working capital utilisation.

Public Private Model to Boost Growth	
Public private partnership (PPP) model can be effectively used to tap the compelling opportunity in the Indian affordable housing market	
Categories	Benefits
Land availability	The government owns vast land banks that can be distributed to private developers through a transparent bidding process.
	The government can relax FSI norms as a means to provide cashless subsidy to developers, bringing down development costs.
Improved financing	A joint pool of public and private funds is likely to be more effective and efficient in financing development projects.
	The government can form development consortiums with private developers and guarantee bank loans borrowed by such consortiums, thereby reducing borrowing costs.
Lower costs	Development companies formed through PPPs can obtain project approvals more easily, thereby reducing project cost and time overruns.
	The government can indirectly lower costs by giving tax relief and reducing stamp duties.
Economies of scope	A PPP model should be more beneficial in developing integrated affordable townships, where the infrastructure and utilities development activity can be taken care of by the government, while private developers with expertise in residential development can build affordable homes.

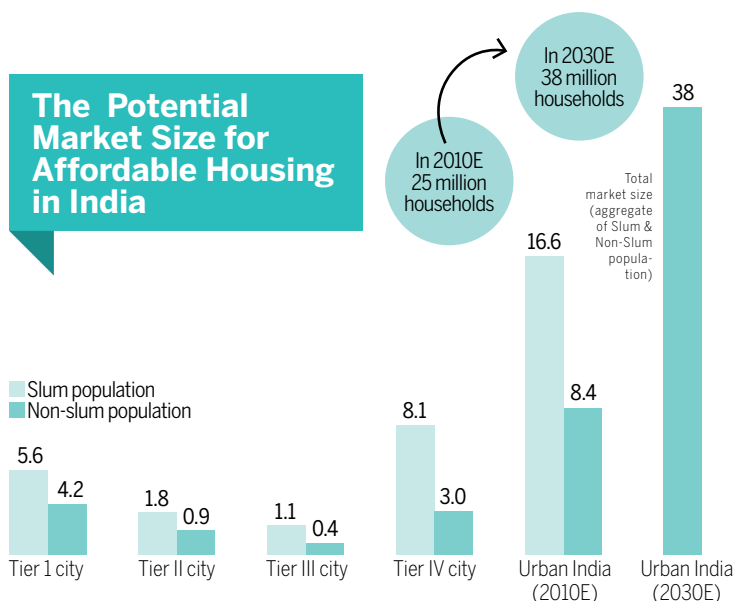
Source: KPMG, Aranca Research

### Way to Go

Micro housing has emerged as a strong trend in the real estate sector. Other emerging trends perceptible in micro housing sector are better technology, materials and construction practices being put into place in the country to bring down the average

construction time. There is also a great emphasis in India on what MHFC is doing—financing of affordable housing. For the affordable housing sector to flourish, players need to evolve with different kinds of models and repayment structures so that customers can pay over a period of time. Several such models are in place in the world. India needs to experiment with each because there is a market for all of them here. It is just a question of being innovative and sensitive to customers' needs. I see all of this happening soon. ■

—Mr Menon is Chairman, MHFCL  
(As told to Sangita Thakur Varma)  
Factoid Source: Aranca Research



Source: India Urbanisation Affordable Housing Model, McKinsey Global Institute Analysis.