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Affordable Housing in India: *Building a New Paradigm*

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Rahul Todi

Bengal Shrachi Housing Development Ltd.



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The Role of Real Estate - Shaping Indian Economy:

- Real Estate in India is one of the most volatile & keenly watched segments of the Indian Economy.
- Real estate is second only to agriculture in terms of employment generation and contributes heavily towards the GDP.
- 5% of the country's GDP is contributed to the housing sector & in the next 5 years this contribution to GDP is expected to rise to 6%
(Source: IBEF - Indian Brand Equity Foundation).
- Real Estate is responsible for the development of over 250 ancillary industries such as cement, steel, paints etc.
- ICRA shows construction industry ranks 3rd among 14 major sectors in terms of direct, indirect & induced effects in the economy.
- A unit increase in expenditure in this sector has a multiplier effect and the capacity to generate income as high as 5 times. If the economy grows at the rate of 10% housing sector will grow at the capacity of 14% with a generation of 3.2 million jobs over a decade.



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The Boom of Real Estate - Buying Trends

- From 2005-2008, the Indian Real Estate sector enjoyed 3 years of boom & unprecedented growth.
- During this period demand for various asset classes remained buoyant leading to a sharp rise in market prices.
- Supply along certain asset classes like the commercial & luxury residential sectors also increased markedly.
- Till Q1'08, end-users were very insistent on purchasing houses.
- Easy credit availability and rising income levels resulted in higher aspiration levels that were well beyond the means and actual affordability of many individuals.
- The above led to a continuous flow of transactions for developers and spiraling house prices.
- According to the National Housing Bank (NHB) Residex, house prices have registered a year-on-year rise of 20-40% in cities like Mumbai, Delhi, Kolkata between 2007 - 2008.



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Sudden face of Recession - Ripple Effects:

- During the 2nd half of '08 onset of economic led both buyers & developers to become wary of the situation.
- Job market uncertainties resulted in apprehension in end users for long term obligations in the residential sector.
- 'Wait & Watch' policy was adopted to take advantage of falling prices.
- On the supply side there was concern about increased limited funding option and decline in aggregate demand.

As a parallel movement the market for 'Affordable Housing' started grabbing great attention



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Definition of “Affordable Housing”

- In many developed countries like USA affordability norm is defined for a residential unit as 30% or less of a household’s gross annual income.
- Recent study shows that an “Affordable House” should be defined as one that costs 3 years salary, assuming 10% down payment & 28% going towards mortgage.
- Back home, HDFC consider 5.1 times annual income as the maximum affordability of a household (*Household earning = Rs. 3 Lacs P/A : Affordable Housing = Rs. 15 Lacs*).



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“Affordable Housing” does not mean “Low Cost Housing”

- In India ‘Low Cost Housing’ is primarily aimed at Economically Weaker Sections (EWS) & LIG groups with the intervention & involvement of Govt. to be prominent.
- The concept of “Affordable Housing” in contrast is applicable across “ALL” income categories.
- The ‘affordability’ of a household in a given location is an interactive outcome of house price, income, spending & saving behavior.
- It is recognized that “affordability” is relative to geographical area, time & income category.



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Typical Case Studies of Kolkata :

Location	Tollygunge
Category	B +
Area Req.	1,100 - 2,000 sq.ft
Affordability	Rs 2,700 -3,000
Ticket Prices	Rs.30 -45 Lacs (Approx.)
Min COC	Min Rs. 2,300

Location	Garia
Category	B -
Area Req.	800 - 1,500 sq.ft
Affordability	Rs 1,700 -2,200
Ticket Prices	Rs 15-25 Lacs (Approx.)
Min COC	Min Rs. 1,400

Here Cost of Construction mainly depends on the price of Land also



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Is it really a New Paradigm?

- **Affordable housing always existed in society.**
- **Some of the key aspects of “Affordable Housing” market dynamics pertaining to were:**
 1. Location of the project
 2. Property specifications
 3. Amenities provided & price identified
 4. Ticket Size of the project
- **A number of external hindrances faced by developers are :**
 1. High Land Cost
 2. External & Internal development
 3. Charges payable to the Govt.
 4. Permissible Ground Coverage
 5. Restrictive Density Norms



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Real Time situation - Potential in numbers:

- The housing requirement for the Rs 3-10 Lacs income groups across 7 major cities are approx. 2.06 million housing units by 2011.
- Assuming the above an avg. household size of 800 sq.ft translates to a req. of 1,650 million sq.ft of residential space.
- Assuming a price of Rs 2,000 per sq.ft being at par to the demand catered to the total space requirement translates to a market size of Rs 3,300 billion or USD 66 billion.

** Source - Knight Frank 2009**



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The Mistakes continue... Dilemma for Buyers

- A research showed that developers continued making the same mistake again in order to tap the potential numbers.
- Although a number of “Affordable Housing” projects have been announced the location is in distant suburbs not having adequate basic infrastructure in order to support them.
- Research findings also indicate that ‘good’ connectivity to frequently traveled places primarily to work places is the most important factor for buyers.

Examples :

- *For instance a major project announced outside Mumbai with 1,500 odd apartments with prices starting at Rs. 380,000 or \$8,600*
- *Another major development with approx. 1,500 flats would be available for Rs 220,000*

Thus, defining “affordable housing” continues to be a challenge for the major players of the “Real Estate Industry”



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Government Support - Overcome Bottlenecks

- Expectations from Govt. to provide land bank at subsidized rates. Laws restricting access to large tracks of land to be eased.
- “Affordable Housing” projects could also thrive in suburban locations by Govt. bringing far flung areas closer with proper infrastructure with efficient transport system which is critical to such developments.
- The extension of 80(IB) of the IT Act is a significant step towards this direction.
- Cross subsidization between Govt. & developer is also a classic example. For instance, West Bengal we have seen the policy which is widely supported by the Govt. as the PPP policy.



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Government Support - Facilitate Developers

- Special Economic Zones to be converted to 'Special Residential Zones'
- Enjoying same fiscal benefits like no VAT , service tax etc.
- This will enable to reduce costs by at least 30%
- A cross subsidy model could also be introduced to enable EWS and LIG Housing



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Thank You