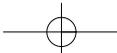




CW COVER STORY

Affordable Housing needs a Revolution



Affordable housing is today's buzzword, with developers increasingly eyeing the lower-income and middle-income segments. What's more, it is also a national responsibility considering the colossal shortage of housing for the masses in urban India. JANAKI KRISHNAMOORTHY looks at the way ahead.

Big is no longer beautiful - at least in the housing industry.

After ruling the realty business for many years, lavish and expensive apartments have now taken a backseat to smaller and more affordable housing. Consider the fact that even players who traditionally catered to the affluent, such as Unitech, Nirmal Lifestyles, Lodha, Hiranandani and Puravankara Projects, are now turning their eye towards the lower and middle-income groups. The reasons are not far to seek: a gloomy economy, stagnating

housing market, dwindling investors and falling demand for luxury homes.

"Builders construct houses according to the demand prompted by the economic scenario in the country," reasons **Anand Gupta, Honorary Secretary, Builders' Association of India (BAI)**. "And affordable housing is no new concept. Developers always advocated it. However, certain factors, like land cost, expenses behind sanctions from various government agencies, environmental issues, eviction of tenants and its political fallout, played a major role in the sale

Quick Bytes

- The urban housing shortage in March 2007 was around 24.71 million and is estimated to increase to 26.5 million by 2012.
- About 15.2 per cent of India's urban population lives in slums and providing them adequate housing is the biggest challenge to the government.
- Shortage of land and escalated land price are major bottlenecks to making housing affordable in urban areas.
- Many private developers are eyeing the middle-income groups by planning affordable projects on the outskirts of cities and metros.
- Government authorities like MHADA bank on salt pan lands for its affordable projects.
- Developers are also relying on cost-effective construction technology and cross-subsidising their projects.

price of flats. Further, the economic boom propelled by the IT industry increased the demand for commercial and residential properties resulting in short supply and consequent price increase."

Others believe the economic slump aside, it was only a matter of time. "The shift had to happen as it had occurred in many other areas," says a reputed developer who does not wish to be named. "When mobiles were introduced, they were beyond the reach of the common man; today, they are accessible to everyone. In the automobile industry, manufacturers are moving towards smaller, low-priced cars. The same thing is happening in housing now. Market conditions and competition dictate the trend."

Irrespective of what triggered the

move, affordable housing is a buzzword today. In fact, the Central Government set up a high-level task force in January 2008 to study and submit its recommendations on affordable housing. The panel headed by **Deepak Parekh, Chairman, Housing Development Finance Corporation (HDFC)**, submitted its report in December 2008 to the housing minister. Although some of the recommendations put forward by the Deepak Parekh Committee (DPC) clearly fall under the purview of the state government, impetus from the Centre will definitely make states take notice, more so with general elections round the corner. What remains to be seen is the intention of government - Centre or state - to implement the recommendations. Indeed, if even some of the suggestions are put in practice, it would go far in filling the cavernous gap that exists between demand and supply in this segment in urban areas.

Demand and supply

In urban India, the population is increasing at a fast clip and there is a colossal housing shortage. According to the Planning Commission Report, the urban housing shortage in March 2007 was around 24.71 million and is estimated to increase to 26.5 million by 2012 - 99 per cent of this shortfall is in economically weaker sections (EWS) and low-income groups (LIG).

Approximately 42.8 million persons or about 15.2 per cent of India's urban population lives in slums with inadequate sanitary and drinking water facilities. The proportion of population living in slums is



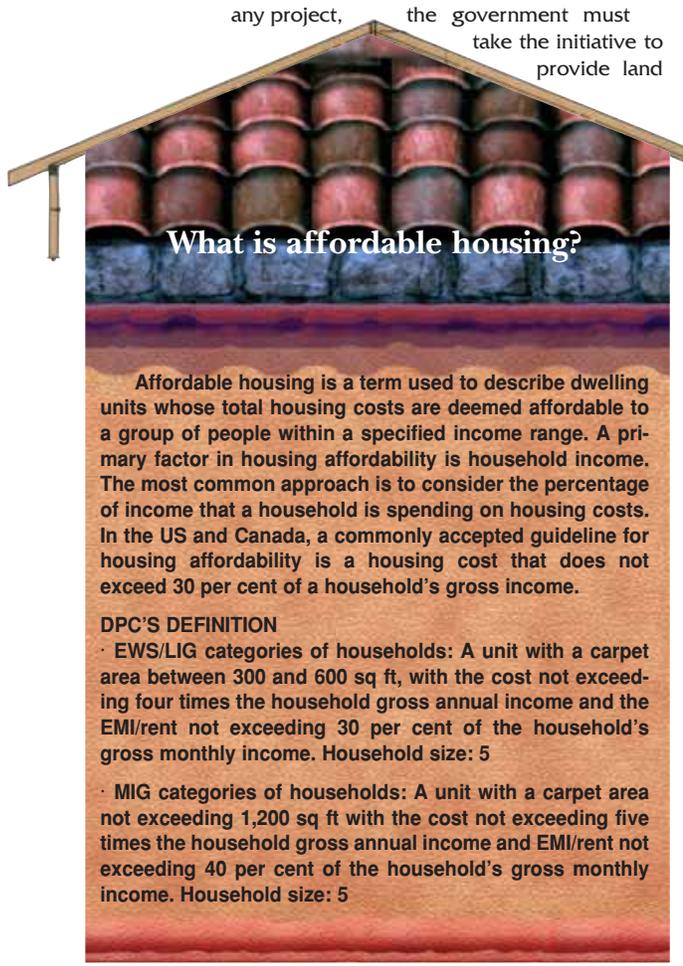
Affordable housing should be at the centre of public policy as per Deepak Parekh Committee.

much higher in metropolitan cities. And providing them adequate housing will be the biggest challenge to the government. Commenting on the situation in its report, the DPC says that not putting affordable housing as a priority of the development agenda is tantamount to demonstrating scant regard to the basic living conditions of a vast majority of the country's urban population.

Why is housing unaffordable?

Shortage of land and escalated land price are major bottlenecks to making housing affordable in urban areas. Many industry pundits and developers point out that the basic cost of construction is the same across the board but the primary factors that drive up costs are land prices and taxes. "As inputs play an important role in the pricing of any project,

the government must take the initiative to provide land



What is affordable housing?

Affordable housing is a term used to describe dwelling units whose total housing costs are deemed affordable to a group of people within a specified income range. A primary factor in housing affordability is household income. The most common approach is to consider the percentage of income that a household is spending on housing costs. In the US and Canada, a commonly accepted guideline for housing affordability is a housing cost that does not exceed 30 per cent of a household's gross income.

DPC'S DEFINITION

- EWS/LIG categories of households: A unit with a carpet area between 300 and 600 sq ft, with the cost not exceeding four times the household gross annual income and the EMI/rent not exceeding 30 per cent of the household's gross monthly income. Household size: 5

- MIG categories of households: A unit with a carpet area not exceeding 1,200 sq ft with the cost not exceeding five times the household gross annual income and EMI/rent not exceeding 40 per cent of the household's gross monthly income. Household size: 5

at cheaper rates for the development of affordable projects. There should be a rebate on inputs required for development of these homes," believes **Rohtas Goel, Chairman &**



"Unfortunately, land for affordable housing projects is available only in areas far away from the city."

- **Anand Gupta, Honorary Secretary,**
BUILDERS' ASSOCIATION OF INDIA (BAI)

Managing Director, Omaxe Ltd, Delhi.

But ensuring a steady flow of land is no easy task. As the DPC points out, "There are several instruments currently in use to bring additional lands into urban use. These are the Land Acquisition Act, 1894 and Land Revenue Acts of the States, which inter-alia relate to conversion of agriculture lands for urban use. Additional lands also come into the market when rural settlements acquire urban status. Both acquisition of land and conversion of agricultural land for urban use and its development and release into the market have been arduous and time-consuming processes." It adds that ill-defined policies through overregulation create land shortages and distortions in the land market, leading to price escalation.

Affordable but afar

As a result, affordable housing projects are now being planned largely on the outskirts of cities and metros. "Unfortunately, land is available only in areas far away from the city," affirms Gupta. "The government should develop proper infrastructure with good transportation facilities to attract the urban population to these projects."

There are many such projects in the market today. For instance, Matheran Realty Pvt Ltd (MRPL) launched the Tanaji Malusare project in Karjat last year. This 4-million-sq-ft township featuring all facilities will have 10,000 homes ranging from 300 to 550 sq ft - priced at Rs 999 per sq ft. Delhi-based Omaxe Ltd plans to develop 1 lakh affordable homes for low-income consumers across India through its group company National Affordable Housing and Infrastructure Ltd. To be priced between Rs 3 lakh and Rs 15 lakh per flat, the projects will be initially launched in Indore, Sonapat, Neemrana and Bhiwadi.

Mumbai developer Akruiti City is also making the shift to more affordable homes within the city; it is building homes priced between Rs 22 lakh and Rs 32 lakh in Mira Road and Thane. Similarly, Nirmal Lifestyles is planning integrated townships for the middle-income group in Dombivili, Panvel and Kalyan. Bangalore-based Puravankara Projects has entered the affordable sector through its

Key Recommendations of DPC

- Place affordable housing at the centre of public policy
- Bring in additional lands into urban usage on a regular basis
- Simplify procedures and processes of land acquisition and conversion of agricultural land for urban usage
- Review the processes of master planning and effecting such changes as necessary for assessing land requirements and allocating them for different uses, including lands for affordable housing
- Upward revision of FAR and FSI across cities commensurate with investment in infrastructure that it will necessitate
- Implement in-situ development in an integrated manner
- Create healthy rental housing market under programmes like Jawaharlal Nehru National Urban Renewal Mission (JNNURM)
- Revamp role of State Housing Boards and encourage them to focus on playing a more active role in the provision of affordable housing, even if it is through public-private partnerships
- Funds raised through the sale of land transactions by State Housing Boards must be ring fenced, with a defined proportion redeployed only for affordable housing
- Impose a cess of 0.5 per cent on all central taxes to establish a dedicated Shelter Fund, to be managed by the National Housing Bank with government providing a budgetary support of equal amount
- Permit housing financial institutions (HFIs) to access long-term external commercial borrowing market as they require long-term funding sources at the lowest cost possible to pass on to the ultimate borrowers
- Reinstate income tax deduction under Section 80 IB of the Income Tax Act for developers engaged in affordable housing projects
- Extend scope of Section 36 (1) (vii) of the Income Tax Act to include housing finance institutions
- Reduce stamp duty rates and registration fee for affordable housing to 2 per cent ad valorem uniformly in all states
- Set up a housing finance company whose main focus will be on microfinance and support and scale up existing microfinance companies by effecting changes in their regulations that constrain their operations
- Promote use of new and alternate technologies in construction
- Set up a dedicated institutional framework to promote affordable housing
- Establish a real-estate regulator that could serve as a single window for overseeing and monitoring the affordable housing agenda, regulate activities, promote policy reform, etc. Until then, set up ombudsman-type bodies at the state level.



Members of the committee: Deepak Parekh, Chairman, Housing Development Finance Corporation Limited; Late Anand Bhatt, Wadia Gandhi & Co; Renana Jhabvala, Self Employed Women's Association; Amitabh Kundu, Jawaharlal Nehru University; Om Prakash Mathur, National Institute of Public Finance and Policy; Nasser Munjee, Development Credit Bank; PK Pradhan, Urban Development, Government of West Bengal; SR Rao, Urban Development, Government of Gujarat; Anita Reddy, Association of Voluntary Action and Services; Utpal Sharma, Centre of Environmental Planning and Technology, Ahmedabad; Rajiv Singh, DLF Group; S. Sridhar, National Housing Bank.



subsidiary, Provident Housing and Infrastructure Ltd. Three of its projects in Bangalore and Mysore are already nearing completion and more are planned in Chennai, Hyderabad, Coimbatore, Kochi, Delhi, Kolkata, Jaipur, Pune and Nagpur. Targeted at middle-income groups and first-time home buyers, these flats are expected to be priced between Rs 10 lakh and Rs 20 lakh. Other developers like DLF, Unitech, Hiranandani, Lodha, Neelkanth, Acme, Evershine and Shapoorji Pallonji are also eyeing this segment.

While land costs are lower in the areas they have chosen, these developers are also relying on cost-effective construction technology and cross-subsidising their projects through simultaneous high-income residential and commercial development in the neighbourhood. For instance, Matheran Realty is planning a retail and commercial venture in the same plot. And Shapoorji Pallonji, which is developing a mass-housing project in Kolkata, plans to cross-subsidise it by developing an IT-SEZ in the vicinity.

The same holds true for Omaxe. "We will

"We will build our housing units with cost-effective technologies and land-sharing techniques."

- Rohtas Goel,
Chairman & Managing Director, OMAXE LTD



"The government has already approved the scheme with 2.5 FSI for MHADA buildings in the suburbs."

- DR Hadadare,
Chief Engineer, MHADA

build our housing units with cost-effective technologies and land-sharing techniques," says Goel. "The average cost of developing the units will be Rs 1,000 per sq ft. The project would be self-sustaining and internal accruals would take care of the land cost. We have also demanded tax benefits on the lines of SEZs for these corridors from the government."

Living in

There is, however, still a ray of hope for those who continue to nurture the dream of having a home within the confines of a city. And the people who can make this dream a reality are the state housing boards, whose mandate is to build affordable homes. However, as the DPC observes, the focus of many of these boards has shifted to merely selling land for profit. "The State Housing Boards are selling more land for commercial projects, thereby shifting away from their core role of providing housing," the report says. "They either hold huge surplus cash balances

generated from the sale of land or pass these funds to their respective state governments, which get channelled into activities besides housing."

Some states are clearly better off than others. For example, Maharashtra Housing and Area Development Authority (MHADA) has several on-going projects in Mumbai. Homes are coming up at Chandivali, Versova, Goregaon, Malad, Dahisar in the western suburbs and Sion, Vikhroli, Chembur and Ghatkopar in the eastern suburbs. And applications are reportedly pouring in with over 6 lakh applications for just 3,800 flats!

With further plans to develop middle-income group projects - as against its earlier focus on lower income and economically weaker sections - MHADA is banking on salt pan lands and lands acquired under ULCA for its future projects. In addition, it is also planning to redevelop its existing LIG/MIG colonies in Mumbai, which will create additional housing stock apart from



MHADA is one of the few answers to an average Mumbaier's dream of buying an affordable home.

re-housing old occupants in larger homes. "The government has already approved the scheme with 2.5 FSI for MHADA buildings in the suburbs," reveals **Dr Hadadare, Chief Engineer, MHADA**. "After housing the original owners, the surplus FSI will be shared between MHADA and the housing society or developer in the ratio of 2:1."

"The government should offer financial incentives like funds at low interest, additional FSI and reduced stamp duty."

- Bharat Ludhani,
Director - Sales & Marketing,
EVERSHINE BUILDERS

Enhancing private participation

To attract more developers to affordable housing and sustain their interest in this segment, the government may have to offer special incentives. "The government should offer financial incentives like funds at low interest, additional FSI and reduced stamp duty," maintains **Bharat Ludhani, Director - Sales & Marketing, Evershine Builders**, a company that is pondering over the idea of entering this segment. "Otherwise, the margins are very thin in the affordable homes sector." Gupta seconds this, saying: "The government should consider releasing land at free or minimum cost as it does for MHADA or CIDCO for construction, offer flexible FSI to suit the circumstances and develop infrastructure facilities where necessary."

Meanwhile, in Goel's view, the government should look at innovative financial instruments to bring flexibility, public-private partnership (PPP) models and other new ways to support such projects. Omaxe has already submitted a concept plan for consideration to the Union Government.

Indeed, encouraging joint-sector projects between governments and housing boards and the private sector for ownership and rental projects can also boost the interest of private developers in affordable housing. One success story is the Bengal Ambuja Housing Project, a JV between Gujarat Ambuja Cements Ltd and the West Bengal Housing Board. The West Bengal government initiated the move to rope in private-sector companies into mass housing more than a decade ago and so far Bengal Ambuja has completed three housing projects in the LIG, MIG and HIG segments. All the JV companies are provided land at a subsidised rate. This initiative has helped people from lower and



Tanaji Malusare project in Karjat, a 4-million-sq-ft township, will have 10,000 homes ranging from 300 to 550 sq ft.

middle-income groups to own a home at prices ranging between Rs 2.5 lakh and Rs 6 lakh.

Yet another PPP that took off recently in Mumbai is the rental housing scheme being developed by Mumbai Metropolitan Regional Development Authority (MMRDA) in affiliation with private players. "The developers will be granted additional FSI depending on location," says **Dilip Kawathkar, Joint Project Director (PR), MMRDA**. "In return, 25 per cent of the total FSI will be handed over to MMRDA for rental housing. The balance is saleable and the developer can utilise it for residential or commercial purposes."

"As per rental housing scheme by MMRDA, the developers will be granted additional FSI depending on location."

- Dilip Kawathkar,
Joint Project Director (PR), MMRDA INDIA

MMRDA is already expecting 75,000 homes from three developers - Matheran Realty (6,000 homes in Tanaji Malusare City, Karjat), Nirmal Lifestyles (35,000 homes in Dombivili) and Dhanashri Developers (34,000 homes near Vasai) - with whom it has entered into contract. Applications of 20 more developers are pending approval. The flats measuring 160 sq ft will be leased out at rent ranging from Rs 800 to 1,500 per month. Those who do not own a house in the Mumbai metropolitan region and whose income is at least Rs 5,000 per month are eligible - final allotment will be done by lottery. "This programme is aimed at migrants and those who are unable to purchase a house," adds Kawathkar. "This will also

MHADA TENEMENTS (1976-2008)

Tenements built by category

Board	SIHS (CDU)	SCS (CDU)	EWS (CDU)	LIG (CDU)	MIG (CDU)	HIG (CDU)	Others	Total CDU
1. Mumbai	29,600	19,184	35,373	70,844	16,537	16,012	15,202	202,757
2. Pune	1,374	2,628	5,024	21,392	6,183	2,419	3,163	42,183
3. Nashik	--	--	1,236	1,510	772	112	21	3,651
4. Amravati	--	--	3,017	1,064	266	136	2	4,485
5. Konkan	3,472	--	3,408	11,045	3,996	1,402	13,779	37,102
6. A' bad	1,107	1,000	11,321	17,477	3,830	1,094	206	36,038
7. Nagpur	3,984	--	10,866	16,744	5,081	2,624	6,471	45,723
8. R.G.N.P	--	--	--	--	--	--	18,291	18,291
9. M.B.R.R.B	--	--	--	28,281	--	--	125	28,406
TOTAL - MHADA	39,487	22,812	70,250	168,357	36,665	23,799	57,266	418,636

Note:-

* CDU: Construction of Dwelling Units (Tenements + Plots)

* SIHS: Subsidised Industrial Housing Scheme

* SCS: Slum Clearance Scheme

* EWS: Economically Weaker Section

* LIG: Low-Income Group

* MIG: Middle-Income Group

* HIG: Higher-Income Group

* Other includes tenements and plots under other various housing schemes, schemes of RGN Project, police chowkies, shops, Samaj Mandir, banks, society plots, amenity plots, banks, commercial complexes, health centres, etc.

prevent the proliferation of slums in the city." MMRDA has recently taken over 100 acre of land for this venture in Borivili, Thane and Kalyan declared surplus under ULCA. It plans to take over more land and generate around 5 lakh low-cost rental housing units in the next five years.

Technology, and more

While this may be a short-term solution to the problem, many people wonder whether rental is really the answer in a country like India, where ownership of one's own home is a core aspiration. Hence, the government must continue to focus on ownership even



Affordable housing units are made with cost-effective technologies and land-sharing techniques.



Various low-cost rental housing schemes could be options for migrants who are unable to purchase a house.

while supporting such measures.

One significant way to make homes more accessible is to reduce construction costs with the use of materials and technology. For instance, precast components can slash costs. But to achieve economies of scale, you need to build a minimum of 1 million sq ft, say experts. Lack of awareness, unfortunately, has limited the use of such technologies in construction.

Evidently, we need a multipronged strategy to tackle the housing shortage: augmenting land supply, subsidising land costs, containing the costs of construction, using modern technology, rationalising regulations governing the housing sector, and simplifying related rules and procedures, tax and other incentives. It won't be easy but it is necessary.

The recommendations of the DPC are a step in the right direction. But then so many good recommendations have been made by earlier committees and governments – today, they are lost, the files buried in layers of dust

and neglected. So will the suggestions made by the DPC go the same way?

To prevent this from happening, we must act. And this 'we' includes all stakeholders—from the common man and the media to DPC committee members, NGOs, elected representatives, financial institutions, developers and government. The first step? Keep the report alive by talking about it, writing about and debating on it. Pressurise the government to act on it. And see how each one of us can do our bit to help in its implementation instead of relying completely on government.

We at **CW** are going to do just that. As availability of land is a major stumbling block to providing affordable mass housing, we are going to begin by taking stock of the land position in and around Mumbai: its availability, ownership, status and how it can be made available. Watch this space. 

Would you like to offer solutions? Write in at feedback@constructionupdate.com