



CBRE

AFFORDABLE HOUSING

THE NEXT BIG THING?

A WHITEPAPER BY CBRE AND FICCI

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FICCI FOREWORD



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The Indian real estate and urban infrastructure sector has witnessed transformative reforms in the past few years. The government has introduced several landmark policy initiatives like Pradhan Mantri Awas Yojana (PMAY)-Housing for All (Urban), Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Smart Cities Mission, Infrastructure status for affordable housing, Real Estate (Regulation and Development) Act 2016 (RERA), Benami Transactions Act, Real Estate Investment Trust (REITs), Easing of FDI norms - all of which will energize and boost the sector and have positive impact in the long run.

The government estimates that there is a shortage of more than 18 million homes, is increasingly looking to the private sector to address the needs of low-income population. It is taking action at central, state, and local levels to try and overcome the myriad of obstacles faced by the affordable housing sector and create an enabling environment.

The PMAY- Housing for All (Urban) Programme launched by the Ministry of Housing and Urban Affairs (MoHUA) envisions provision of Housing for All by 2022. The Mission seeks to address the housing requirement of urban poor including slum dwellers using land as a resource through private sector participation, promotion of affordable housing for weaker section through credit linked subsidy scheme, affordable housing in partnership with public & private sectors and subsidy for beneficiary-led individual house construction/ enhancement.

I am happy to share with you FICCI- CBRE whitepaper on 'Affordable Housing – The Next Big Thing?' which has brought to light some interesting facts to bridge the housing shortage gap in India and key inhibitors of private sector participation in affordable housing segment. It provides a broad understanding of basic components of the Affordable Housing Scheme along with the policy level interventions by the Government of India to foster the public private participation in the sector.

We hope that this paper being presented to the conference on "Pradhan Mantri Awas Yojana - Housing for All by 2022" on 16th March 2018 organised by FICCI in partnership with the Ministry of Housing and Urban Affairs (MoHUA) would set the tone for the deliberations.

We hope you will find this report useful.

EXECUTIVE SUMMARY

The past two years have been landmark years for India's real estate landscape; ranging from the formation of a strong regulator on one side to easing of foreign investor norms on the other. The years have also witnessed a major thrust on affordable housing and a strong revision to the Real Estate Investment Trust (REIT) guidelines. The passage of the Real Estate Regulation Act (RERA) was the most significant reform that the real estate sector has seen in recent times. Meeting the long-standing demand of the industry, the implementation of RERA finally took place in 2017. While many states took time to finalise their guidelines, the establishment of a regulatory authority is finally improving both consumer and investor sentiment across India's housing market.

This period was high not only on legislative measures, but also witnessed the government's renewed focus on achieving its goal of 'Housing for All by 2022' by promoting the development of affordable housing in the country. During 2016 and 2017, there have been concrete interventions by the government to propel this critical, but a largely neglected segment. Numerous measures have been announced to promote this segment and to encourage private sector participation.

The year 2016 saw the sector being granted Infrastructure Status; 100% deduction on profits for affordable housing projects, an increase in the liveable area of units, as well as relaxed completion timelines for affordable housing projects.

In September 2017, the government formulated a new policy on 'Public Private Partnerships for Affordable Housing' while In November 2017, the carpet area under the PMAY was raised from 90 sqm to 120 sqm for the INR 6-12 lakh/ annum income category and from 110 sqm to 150 sqm for the INR 12-18 lakh/annum category. The budget in February 2018 saw the finance minister announcing the setting up of a dedicated fund for affordable housing under the National Housing Bank which will be funded by priority sector lending shortfall and fully serviced government-authorized bonds. This was in addition to the demand side pre-budget cheer for the segment wherein GST for affordable and low-cost housing was rationalized from the previous 12% to 8%.

While we have witnessed an uptick in activity in the affordable housing segment, there are still some measures that the segment needs in order to be completely viable for private participation. Availability of land, relaxation in development norms, faster approvals for affordable housing projects, clear definition of affordable housing and better alignment between central and state policies are some of the factors that need to be addressed to allow the segment to achieve its full potential.

AFFORDABLE HOUSING – THE NEXT BIG THING?

Affordable housing has been a buzzword for more than a decade now, with successive governments looking to tap affordable housing as a medium to bridge the housing shortage gap in India –most of which is in the mid income and low-income categories. However, the segment hasn't really gained the required momentum to address this gap. A major reason has been the lack of private participation in the segment. When taking a closer look at the dynamics of affordable housing, the key inhibitors for private developer participation in the segment are highlighted:

CHART 5:
KEY SUPPLY-SIDE CHALLENGES FACED BY AFFORDABLE HOUSING IN INDIA



Source: CBRE Research

Providing the Impetus: Recent Policy Announcements to boost private participation

Over the past two years, the central government had taken various steps to ease the supply side as well as the demand side issues impacting the affordable housing sector in India. The Pradhan Mantri Awas Yojana (PMAY), a flagship scheme promoted by the government, has received a slew of measures to enable private participation and spur the supply side for affordable housing. With infrastructure status being accorded to the sector in last year's budget, developers were provided the opportunity to gain access to lower cost credit for longer tenures, which should improve the cash-flows of their projects. In the 2018-19 budget, the allocation towards PMAY has been raised from INR 15,000 crores to INR 23,000 crores. Additionally, a few months ago, GST for affordable and low-cost housing was rationalized from the previous 12% to 8%. These, in addition to various measures that were taken in 2016 are likely to provide significant impetus to the sector.

A Dedicated Policy – The Pradhan Mantri Awas Yojana (PMAY)

The government's agenda of constructing 10 million homes by 2019 for families living in 'Kucha' houses was realized in the form of Pradhan Mantri Awas Yojana (PMAY) scheme, which was implemented from June 2015. The scheme originally meant to cover buyers in the EWS (annual income not exceeding INR3 lakhs) and LIG (annual income not exceeding INR 6 lakhs) sections also included the mid-income group (MIG), with household income up to INR 18 lakhs per annum. The scheme known as Credit Linked Subsidy Scheme for Middle Income Group (CLSS for MIG), will comprise of two slabs covering anyone with a household income between INR 6 lakhs and INR 18 lakhs per annum to avail the benefits of subsidized loans.

The below table highlights the approximate subsidy that would be available to each income category under the CLSS:

Pradhan Mantri Awas Yojana Credit Linked Subsidy Scheme				
Income Categories	EWS	LIG	MIG - 1	MIG - 2
Annual Income Limit (in lakhs)	3	6	12	18
Interest Subsidy Rate (in %)	6.50	6.50	4.00	3.00
Maximum Loan Tenure (in years)	20	20	20	20
Eligible Loan (in lakhs)	6	6	9	12
Current Interest Rate (in %)	9.00	9.00	9.00	9.00
Carpet Area (in sq. m.)	30	60	120*	150*
Subsidy Amount (Total)	267,280	267,280	235,068	230,156

Source: National Housing Bank, Pradhan Mantri Awas Yojana Credit Linked Subsidy Scheme, 2017
 *Changed from 90 sq. m to 120 sq. m and from 110 sq. m to 150 sq. m in 2017

HOW CAN AFFORDABLE HOUSING BRIDGE THE GAP?

To fast-track the pace of affordable housing development, it is imperative that isolated interventions be replaced with a well-synergized approach to address concerns of all stakeholders in the value chain. Although the government has been very proactive in providing incentives for private participation in the segment, especially in the past two years, there are still some steps that can be taken to connect the remaining dots. Some recommendations which will provide the final push to the segment have been mentioned below:

Clearer definitions – In 2017, the government announced that the goods and services tax (GST) would be reduced from 12% to 8% for low-cost housing, however the circular does not define low-cost housing. Also, the government has said the GST will be reduced for affordable housing projects, which have been given infrastructure status; however how and who will accord this infrastructure status is still unclear.

Ease of Land availability – The government needs to regularly release land parcels for affordable housing projects, identified within municipal limits and bring more peripheral lands into developable limits of the city authorities.

Relaxed Development Norms – Easing FAR and density norms will be critical for the development of affordable housing. Also, the government should review the master plan/zoning provisions on a regular basis, so as to allow for optimum allocation of land for affordable housing.

Invest in Infrastructure Upgradation – The emphasis cannot be on releasing land parcels only, but focus also needs to be on providing the necessary connectivity and social infrastructure, to allow these projects to develop as habitable and vibrant communities.

Dedicated approval window for affordable housing – Building approval process needs to be streamlined; a separate fast-track process needs to be put in place for affordable housing projects. For affordable housing to work, accelerating the building approval processes is critical, in order to limit the gestation period and the associated costs.

Synchronize Central and State policies – There is an urgent need for alignment of state level affordable housing policies with the central government policies to remove ambiguities around availing central incentives, while ensuring compliance with the state policies.

Strengthen Micro-Finance – Not only does the supply side need intervention, the government needs to improve the institutional environment for the lower income categories to access housing microfinance and other financial tools. Housing micro-finance gives these borrowers access to credit and the opportunity to develop a credit history, which can assist them in their loan approval processes, going forward.

Relaxation on registration charges and stamp duties – To further strengthen the demand for such units, the government should look at rationalizing/waiving off registration charges, as well as stamp duties for affordable housing units.

Use of advanced technologies – There is a need for developers to invest in innovative construction technologies to promote mass housing developments at subsidized construction costs. Portable modular housing units and prefabricated construction technology are some techniques that could be looked at to address affordable housing needs.

OUTLOOK: TRENDS THAT WILL DEFINE AFFORDABLE HOUSING IN THE COMING YEARS

POLICY THRUST TO DETERMINE PACE OF GROWTH

Although the term “affordable housing” has been around for many years, the past two years have seen a renewed focus from the government to spur activity in the segment; via various initiatives undertaken. While these initiatives have done enough to set the ball rolling, however the growth momentum of the sector will be directly proportional to the proactive as well as reactive pace of the government.

CREDIBLE DEVELOPERS TO MAKE INROADS

As of now, affordable housing in India is more of a local game and most of the supply in this category is fragmented and driven by local developers. With the government keen on addressing key concerns such as profitability as well as ticket sizes of affordable housing units, national/regional developers are now keenly evaluating the segment. This is especially relevant in times where affordable housing can serve as a revenue stream in the wake of slower sales in other categories, especially luxury housing.

FUNDING AVENUES TO BROADEN

As the sector receives a determined push from the government, it is likely to emerge as the new focus area for housing finance companies. As per CRISIL, the assets under management of affordable housing finance companies are expected to grow at a CAGR of 40% over the next four years, as compared to 17-18% for the housing finance sector, as a whole. With leading housing finance companies already devising roadmaps to tap the sector in the coming years, NBFC's are also expected to make inroads into financing this potent, but underserved segment.

INFLOW OF FORMAL CAPITAL

Recently, the trend of private equity players and NBFC's investing in housing finance companies (especially those focusing on the affordable housing segment) has started to pick up. As the sector continues to garner support from various stakeholders in the affordable housing segment, this trend is likely to strengthen in the coming years. The inflow of formal capital is not going to remain limited to the demand side, as the segment is also likely to witness capital infusion on the supply side. With RERA providing the much-needed credibility to the residential segment, PE players/ family offices/ corporate players/HNI's are likely to increase their participation in the housing as well as affordable housing segment.

USE OF TECHNOLOGY TO MAXIMIZE EFFICIENCY

As mentioned above, the segment has witnessed very limited activity, especially from reputed players. With the expected entry of credible players into the segment, the scope for use of advanced technology and transfer of technical know-how is likely to increase significantly. Developers are likely to invest in innovative construction technologies to promote mass housing developments and minimize construction costs. Portable modular housing units and prefabricated construction technology are some techniques that could be more prevalent in the coming years.



CBRE Group, Inc.

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Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialisation, and its emergence as one of the most rapidly growing global economies. A not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 250,000 companies. FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

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