Interactive Meeting

with

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Hon'ble Minister for Housing & Urban Poverty Alleviation

Government of India

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Background Paper

I. Affordable housing and infrastructure/industry status for housing

Our inability to create adequate provisions for housing facilities and basic services to meet the requirements of urbanisation has resulted in the development of slums and squatter settlements. As per the report of the Technical Group on Urban Housing Shortage (2012-17) constituted by the Ministry of Housing and Urban Poverty Alleviation, Govt. of India, there is a shortage of 18.78 million dwelling units out of which nearly 96% belongs to the Economically Weaker Sections (EWS) and Lower Income Group (LIG) Households. The good news is at least half of this shortage could be serviced by the private sector – with enabling policy.

It must be understood that the gap between the EWS segment served by government initiatives and the premium segments served by traditional builders is a very large, underserved market where homes could be made available at prices in range of Rs. 5-15 lakhs. This Urban LIH (Low Income Housing) Market covers nearly 50% of the urban population. Government initiatives are currently aiding the EWS segment, whose income does not allow significant economic activity. Those in the Low Income Housing (LIH) urban market are the 'economically active' urban poor. They are reasonably educated, purchase durable assets, and have a consistent source of income – but a quality home is often out of their reach.

Serving the Low Income Urban Housing Market will be a natural start towards eliminating India's housing deficit, requiring us to jointly create an ecosystem that provides this segment affordable ownership with transport connectivity and proximity to social infrastructure.

All stakeholders – the Government of India, State Governments and Banks and Financial Institutions must come together to create an enabling affordable housing ecosystem. The industry and other stakeholders are keenly awaiting the announcement of an Affordable housing policy from the Government of India with focused steps towards incentivising affordable housing in the country.

Challenges:

Unavailability of land parcels for affordable housing development:

- Affordable Housing developments require large land parcels at a low price, which are not available in urban centers.
- Large, affordable land parcels do exist in semi-urban areas, however:

→ LIH projects need to be well connected to transportation and social infrastructure, limiting the number of suitable parcels

→ Semi- or peri-urban land often does not have the infrastructure needed for affordable homes to maintain their low-cost while obtaining environmental approvals

→ Land in semi-urban areas are often agricultural, creating a hurdle for development approval

Suggestions:

Govt. of India:

- Incentivize state and local governments to release unused government land for Affordable Housing development (as per the central definition of what constitutes an Affordable Housing project)
- Earmark infrastructure funds for corridors dedicated to Affordable Housing

State Governments:

- Designate zones for affordable housing enabling more land available at affordable prices.
- Increase infrastructure into corridors with affordable land parcels. Extend the last mile connectivity (roads, trains, buses, water supply, sewage disposal, schools etc.), which will increase the number of undeveloped affordable parcels accessible to urban cores.
- Release government land for development of Affordable Housing
- Simplify process for land acquisition and conversion of agricultural land for urban use
- Re-designate land not zoned for development as land that only affordable housing projects can develop.

General Residential Development Control Regulations (DCRs):

- Currently, affordable housing is subject to the general residential Development Control Regulations, requiring Low-Income Housing to comply with some regulations that are not relevant for the segment.

Suggestions:

Govt. of India:

- Incentivize states and local bodies to create separate DCRs for affordable housing projects. Appoint a task force to design guiding principles for affordable housing DCRs and incentivize local bodies to formulate a distinct affordable DCR modeled on the same (e.g. earmarked subsidies/funds for cities with a working DCR for affordable housing)
- Appoint a task force to design guiding principles for affordable housing DCRs and incentivize the states to adopt the same.
- Build a regulatory body to create, oversee, and enforce sector norms

State Governments:

- Create a separate DCR for affordable housing
- Optimize FSI norms for affordable housing development → 1.5 - 2

Delay in approvals from authorities:

- Obtaining necessary approvals can add 2 to 2.5 years to the development of an Affordable Housing project. This reduces the supply a single developer can logistically provide and increases the cost of the flat – per sqft cost increase is estimated at Rs. 10 – 15/month spent waiting for approval.

Suggestions:

Govt. of India

- Incentivize states to create a single-window clearance mechanism for LIH
  - → Earmark funds/subsidies for local bodies that provide this facility.
  - → Provide states/municipal bodies an IT platform that 1) centrally lists all documents required for submission, 2) allows e-submission and e-payment, and 3) provides transparent status updates for government officials, the developer, and customers.
- Exempt Affordable Housing from certain NOCs

- Institute a separate MOEF clearance mechanism for Affordable Housing. Central MOEF body jointly designs guidelines for state bodies in consortium with other stakeholders. Allow clearance at the time of Master Plan Approval for affordable housing projects instead of each project applying for approval.
- Exempt green-certified (e.g. IGBC) projects from environmental clearance

State Governments:

- Create Single-window clearance mechanism for LIH
  - → Form an apex body for Affordable Housing developments headed by a senior official with representatives from each approving body, enabling faster LIH approvals to increase the supply of affordable homes! E.g. Rajasthan's model providing land and building clearance in 30 days.
- Initiate a separate channel for MOEF clearance for Affordable Housing
- Create a separate body to more quickly evaluate affordable projects

<u>Easy availability of Housing Finance:</u>

- Currently, only a few Home Finance Institutions provide mortgages to the segment private Affordable Housing seeks to serve. Moreover, annual loan disbursements below 10 lakhs remained stagnate from 2008 – 2010.

Suggestions:

Govt. of India

- Increase size and scope of LIH loan subsidies. Expand the amount of subsidy provided through ISHUP for homes priced below 15 lakhs.
- Decrease risk of lending to target segment by providing government guarantee against default
- Mandate lending to low-income customers buying homes below 15 lakhs either through priority sector lending or a new mechanism

Demand and Supply Side Challenges:

Demand Side

- Duties and taxes charged to the end-user – e.g. stamp duty on flat purchase, flat registration charges, service tax and VAT – together raise the cost of ownership at least 10% for end-user buyers.

Supply Side

- More than half of the total construction cost comes from cement and steel.
- The direct and indirect taxes the developer pays have to be recovered through sales revenue, showing a direct link to the end-user's cost of ownership. Development related charges (EDC, building plan approval fees, conversion charges, etc.) are estimated to add Rs. 20 – 25/sqft to the cost of affordable housing alone.

Suggestions:

Govt. of India

- Place affordable housing under infrastructure definition through Section 80 IB to peg registration fees in every state
- Place project finance for affordable housing developments in the priority sector lending category
- Provide tax rebates on materials (e.g. steel + cement) used in building affordable housing
- Incentivize states to waive stamp duty on land, flat registration fee, VAT and service tax for affordable home purchases

State Government:

- Waive stamp duty, service tax, and VAT on affordable home purchases. These components typically add at least an additional 10% to the end-user's cost of the home, waiving these fees will make owning an affordable home much more realistic for a broader swath of the urban population.

Other suggestions:

- **Land aggregation** – This becomes the most challenging problem for developers right at the start of the project. It is suggested that Government should take lead in aggregating land for development of affordable housing. The same may then be handed over to developers based on a transparent selection procedure.

- **Product segment mix** – Formulation of LIG/ MIG/ EWS/ or any other component in the scheme/ project should be clearly communicated and justified. This will help in perfection of plan right from the beginning.

- **Development of Core and Social infrastructure**

  → Support infrastructure including transportation, commercial, retail, medical, educational, etc. are essential requirements for all sections of society including those dwelling in the Affordable Housing properties. Government should support and incentivise developers in coming forward to develop these along with residential townships under Affordable Housing clusters.

  → Rebate to developers on infrastructure carrying cost to far flung areas should be considered.

  → Infrastructure development charges should not be levied on developers as done in cities, since here the developer himself will contribute towards developing the requisite infrastructure.

With all stakeholders – the central and state governments, housing finance institutions, and private developers – working towards the common goal of increasing the quality and size of the affordable housing stock, we can make a significant difference for India and its citizenry. It is requested that "*Housing be made a part of infrastructure sector or declared to be an industry, so that it is possible to incentivise the construction activities to deliver an appropriate mix of dwelling units to meet the needs of the people in housing poverty.*"

EWS Housing

- Currently for provision of EWS housing, Govt. is suggesting 15% of FSI or 35% of number of units, whichever is higher. We request the Govt. to delete the condition of "whichever is higher".

- To balance population density of EWS units versus development population, EWS unit size which is currently fixed at 30m2 should be made more flexible up to 40m2.

- Location of EWS need not be adjacent to main development but can be at a different location.

- EWS housing to be insisted for the plots about 10 acre and above.

II. Funding challenges for real estate sector

Over the last few years, India's construction and real estate industry growth story has been severely impacted with high cost of borrowing and unrelenting inflationary pressures. Given how important the industry is to the "India growth story" we believe it is really important for the Government of India to consider taking steps to stimulate the industry by solving some key funding issues.

Funding issues and recommendations

- **Non-priority sector**: Housing industry has not been accorded industry status thus keeping benefits from financial institutions, lower interest rates and easy approval processes away from it.

  Recommendation: Housing sector should be branded as a "priority sector", similar to infrastructure sector, as it is imperative that the government assists developers with at least the low-income housing projects in acquiring land and making faster approvals. India needs to build more than 700 million square feet of residential and commercial real estate each year if it aims to match the rapid speed of urbanization. Giving the priority sector status will help increase funding to the sector and help in stimulating growth in housing industry.

- **External commercial borrowings not allowed across real estate sectors:** RBI passed a decision allowing developers to raise funds through ECBs for low-cost housing projects. This is a welcome move, but the country also needs good quality office, retail and industrial real estate.

  Recommendation: We recommend that funding through ECB should be made available to all sectors within real estate above a certain investment size such as USD 10 Million. With regulation regarding FDI in retail passed recently, international funds are looking at Indian real estate favourably again and we need to provide more avenues for them to invest capital in the country. This will also help to reduce the exposure of the Indian banking sector to real estate lending.

- **High Capital Risk Weight-age:** Currently, the high capital risk weightage given to real estate sector by RBI is raising the cost of capital for developers and home buyers. The risk weight-age does not take into account the fact that the sector has seen much lower Non-Performing Loans real estate credit.

  Recommendation: RBI should consider reducing risk weight-age to bring it in line with the low loan default ratios of the sector. Our recommendation is as follows:

  a. Mortgaged residential housing loan to individuals
     i. upto INR 50.00 lakh (LTV ratio =or<75 %): 25%
     ii. above INR 50.00 lakh (LTV ratio =or<75 %): 25%
     iii. Irrespective of the loan amount (LTV ratio >75 %): 50%

  b. Commercial real estate: 75%

  c. Co-op / group housing societies and Housing Board and for any other purpose: 75%

- **Limited tax break for individuals:** At present, a deduction of up to INR 1.5 lakh is available from taxable income towards interest on loan taken for house. Besides, borrowers can enjoy exemption on payment of principal amount. However, it is part of exemption to savings capped at INR1 lakh per annum. With the property prices and interest rates rising with each passing year, there is need to revise the tax exemption limit as the current tax exemption provides little incentive to buy a house for an individual.

  Recommendation: We recommend that the existing total tax deduction limit on income tax of an individual should be increased from the current level of INR 2.5 lakh to at least INR 5 lakh. Of this, INR 3 lakh should be towards interest payment to offset the impact of high interest rates and the remaining INR 2 lakh should be exclusively towards principal loan repayment.

- **Insufficient limit under NHB Urban Housing Scheme for Metro cities:** Currently, the scheme provides 1% interest subvention on housing loans upto INR 15 lakh with cost of the house not exceeding INR 25 lakh. This is clearly insufficient in big metros such as Mumbai, Delhi, Chennai, Calcutta, Bangalore, Pune and Hyderabad where property prices have increased many folds in the last few years.

Recommendation: We recommend that the at least in the 4 metros, the limit be increased to housing loans of upto INR 30 lakh with cost of the house not exceeding INR 50 lakh. This should also help in stimulating demand for real estate in the country.

- **One more rollover of real estate loans per project to developers:** The Reserve Bank of India (RBI) allowed rollover or restructuring of real estate loans in end 2008 when the Indian economy was badly affected by the global financial crisis. It was a much needed reprieve for the ailing real estate sector that gave the impetus to the sector to stage a comeback in 2010-11.

  The present gloomy economic scenario has further affected the fund raising capacity of real estate sector as there is low appetite among global investors to invest in the sector due to regulatory issues. The sector is reeling under tight financial conditions and margins of real estate companies are under pressure due to slackness in the growth of real estate sector, overall weak demand, high construction material and labour costs and high inventory of unsold units.

  Recommendation: In this scenario, FICCI appeals to the Government of India, banks and financial institutions to permit at least one more rollover of real estate loans per project to developers. We also urge the Government and RBI to consider a reduction in risk weightage for real estate loans and change in Non Performing Asset (NPA) norms of banks and financial institutions to help reduce the cost of loans for developers.

  McKinsey Global Institute research estimates that Indian cities could generate 70 percent of net new jobs created by 2030, produce around 70 percent of Indian GDP, and drive a near fourfold increase in per capita incomes across the nation. India has the potential to unlock many new growth markets in its cities, provided India meets its urbanization demand – for example, the economy will have to build between 700 million and 900 million square meters of residential and commercial space along with 350-400 km of metros and subways each year. We have a difficult task ahead of us, but with progressive government policies we can help the country achieve its true potential. We believe if key funding issues mentioned above are solved, the housing industry can grow to its full potential and play an important part in India's development.

III. Higher FSI and density norms for housing projects

It is estimated that by 2030, over 40% of India's population would be living in towns and cities. Higher FAR and relaxed density norms are very much desirable for developing new towns by Indian real estate industry. The Central and State Governments need to wake up on the FAR/FSI norms to create more dwelling for its citizens. With more and more people moving from rural to urban centres for better and improved standard of living, we need to consider increasing FSI for Indian cities. In Asian cities like Singapore, Bangkok, Malaysia, FAR/FSI varies between 5 and 50. Even the Apple City of USA – Manhattan (New York) has the FAR/FSI of about 20.

The social and economic consequence of persisting with archaic planning norms is profound and significant. Apart from the issue of infrastructure provisioning, the low density planning norms have manifold implications for creating slums and urban impoverishment. Flat low rise urban sprawls spread over a large geographic area compound the need for efficient urban transport. FICCI recommends rationalization of the planning/building norms with higher FAR/FSI commensurate with advances in technology and growth in urban transport as also arguing the case for relaxed population density norms.

IV. Revision of FDI policy for real estate

DIPP is looking at revising FDI policy. FICCI is happy to submit its suggestions for relaxing FDI regulations for real estate and also the rationale behind each suggestion. The suggestions are separately attached with this paper in the end.

V. Streamline approval projects for real estate projects

Real estate and housing projects requires over 50 approvals from various authorities at the Centre, State and Municipal levels. One of the most tedious, time consuming clearances required for real estate, construction and infrastructure projects in the country is the environment clearance issued by the Ministry of Environment and Forests Govt. of India. Government of India's plans to realize "double digit" growth for the Indian economy can go awry if one of the most important issues, that of 'Environment Clearance' is not addressed appropriately.

In real estate sector, before starting any project, a developer is required to obtain Environment Clearance, for an area of 20,000 sq.mts. (approx. 2 Lakhs sq.ft.) and above which takes about 1 to 3 years to obtain. In Maharashtra alone, more than 1000 cases are pending and average time taken to clear the projects is anytime between 1-3 years. This causes great hardship and undue delays. Pan India there would be around 5000 projects pending for environment clearances with investments of around Rs 10 lakh crores. Delay in clearances is not only affecting the developers but also the financial institutions and home buyers alike.

Local Development Authority be entrusted the task of environment clearance. Environment Ministry should play the role of a supervisor, rather than going into the nitty-gritty of clearing each and every project. The responsibility of compliance and adherence should be left to the developers and of strict enforcement and monitoring to the local planning bodies/approving authorities. This will bring down costs substantially at least 10% pan India basis as per our estimate. This will also be a big step towards realizing the goal of creating affordable housing across India.

An office memorandum (OM) issued by MoEF dated 7th February, 2012 stipulating a set of guidelines for height of buildings and minimum width of roads as well as distance from fire stations has added to the existing bottlenecks for real estate projects in various states.

The published minutes (available online) of the 111th Expert Appraisal Committee (EAC) Meeting of Infrastructure and Miscellaneous Projects & CRZ held on 16th & 17th April, 2012 clearly indicate that above guidelines issued by MoEF are advisory in nature and may not be considered mandatory. These guidelines were issued basically to sensitize local bodies to ensure that enough precautions are taken with respect to the requirements for fire safety and disaster management.

However, most of the State Level Expert Appraisal Committees (SEACs) are still referring project proponents to submit their proposals in accordance with the MoEF office memorandum. States like Karnataka, Punjab and Maharashtra are strictly following the MoEF OM despite the MoEF committee observing that the guidelines issued are only advisory and not mandatory.

It would be pertinent to highlight the following facts in this regard:

- Real estate projects are designed based on all relevant fire safety norms, National Building Code (2005) as well as applicable norms for high-rise buildings.

- Specifying a requirement of certain road width for different heights of the buildings will hamper all the new proposals and future development in metro cities. Normally such requirements fall under the jurisdiction of the local statutory authority.

- The local administration takes the responsibility of making suitable provisions of required infrastructure and facilities like Fire Stations etc and defines distances between fire stations.

- The MOEF Committee itself considers above guidelines as advisory in nature.

Other suggestions on approval process

- FICCI suggests Government of India to seriously consider the industry's long pending suggestion for Single window clearance system of approvals and approval of building plan by certified architects.

- For green buildings approved with IGBC, it is suggested that 50% concession in the municipal premium / charges be given to promote green buildings PAN India basis.

- Stamp Duty to be maximum 2% and registration fees should not exceed 0.10% of Stamp Duty totaling 2.10%.

- Approval of building permit till plinth level be given within 48 hours by local planning bodies.

- Non-Agriculture (NA) conversion in residential zone should be automatic

VI. **Real Estate Regulation Bill**

- Real estate regulation bill should be brought about to stop malpractices in real estate sector, however, the regulation should be such that it does not impede the development of the sector.

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