

# Rental Housing in India

Urban Growth & Solutioning


## Arvind Nandan


19 August 2020



Introduction

# ARVIND NANDAN

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**Arvind Nandan**

Managing Director
Research & Consulting
Savills India

## A BRIEF

- Over 20 years in real estate consulting, research and valuations; apart from business management.
- Created and led some of the best businesses in the industry
- A prominent presence in media and on public platforms, on news channels and electronic media
- Held leadership roles handling assignments across India, South- & Southeast Asia
- Erstwhile member of prestigious global board called International Valuation Standards Board (IVSB)
- Pioneering some thought-leading papers and a state-of-the-art research work on urbanization related issues

A wide spectrum of interests including reading, writing, arts, photography, music and sports.

**20+ Years**

**in Real Estate Leadership**

**Research**
**Consulting & Valuations**

# *A Four-Part Narrative*

## Genesis

Urbanization and Attendant Issues

## Policy Pathway

2005 - 2015

## ARHCs

The Operational Guidelines

Analysis & Comparison

Strengths & Challenges

## Some Other Examples

Singapre & Germany



# The Genesis

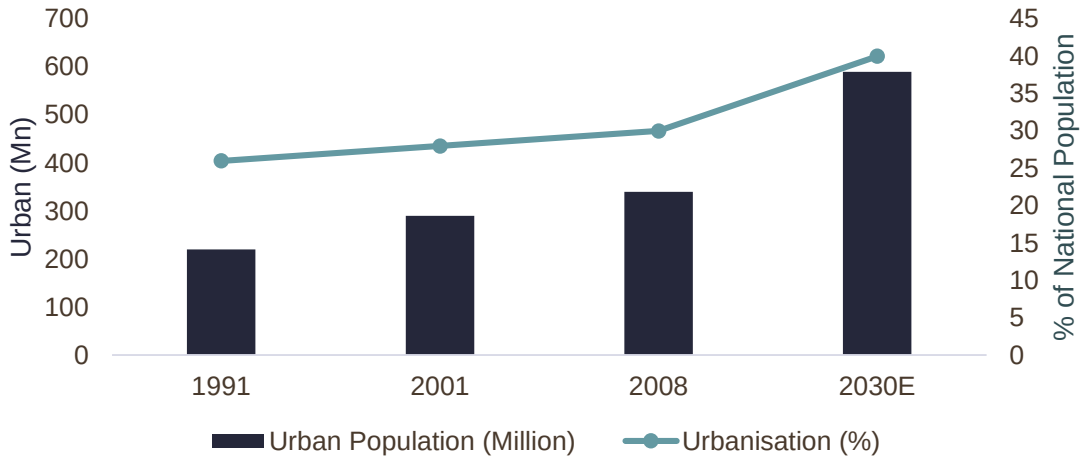
Twin Problems that are Complementary for Solutioning

# INTRODUCTION: RESETTLING IN THE CITIES

## Rapid Urbanisation of the country

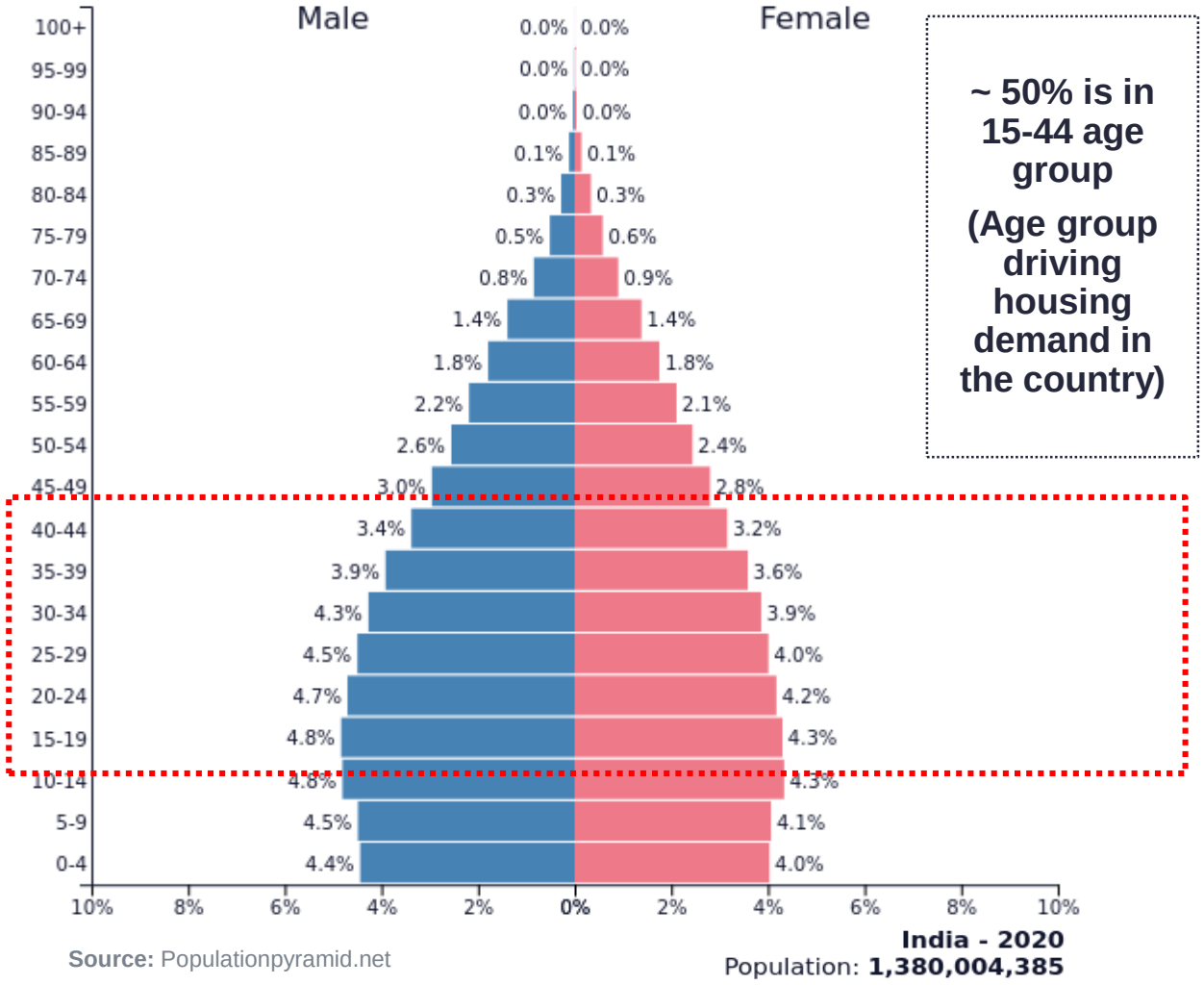
- India's urban population share has grown more than threefold in just over a century- ~ 10% in 1900s to current levels of more than 34%
- 40 cities with a million plus population; with 50% in 15-44 age group
- Reasons for increasing urban centric settlements: INCOME PULL & GROWTH ASPIRATION.

## Urbanization Trend in India




**Source:** Mckinsey, RBI

## India: Population Pyramid

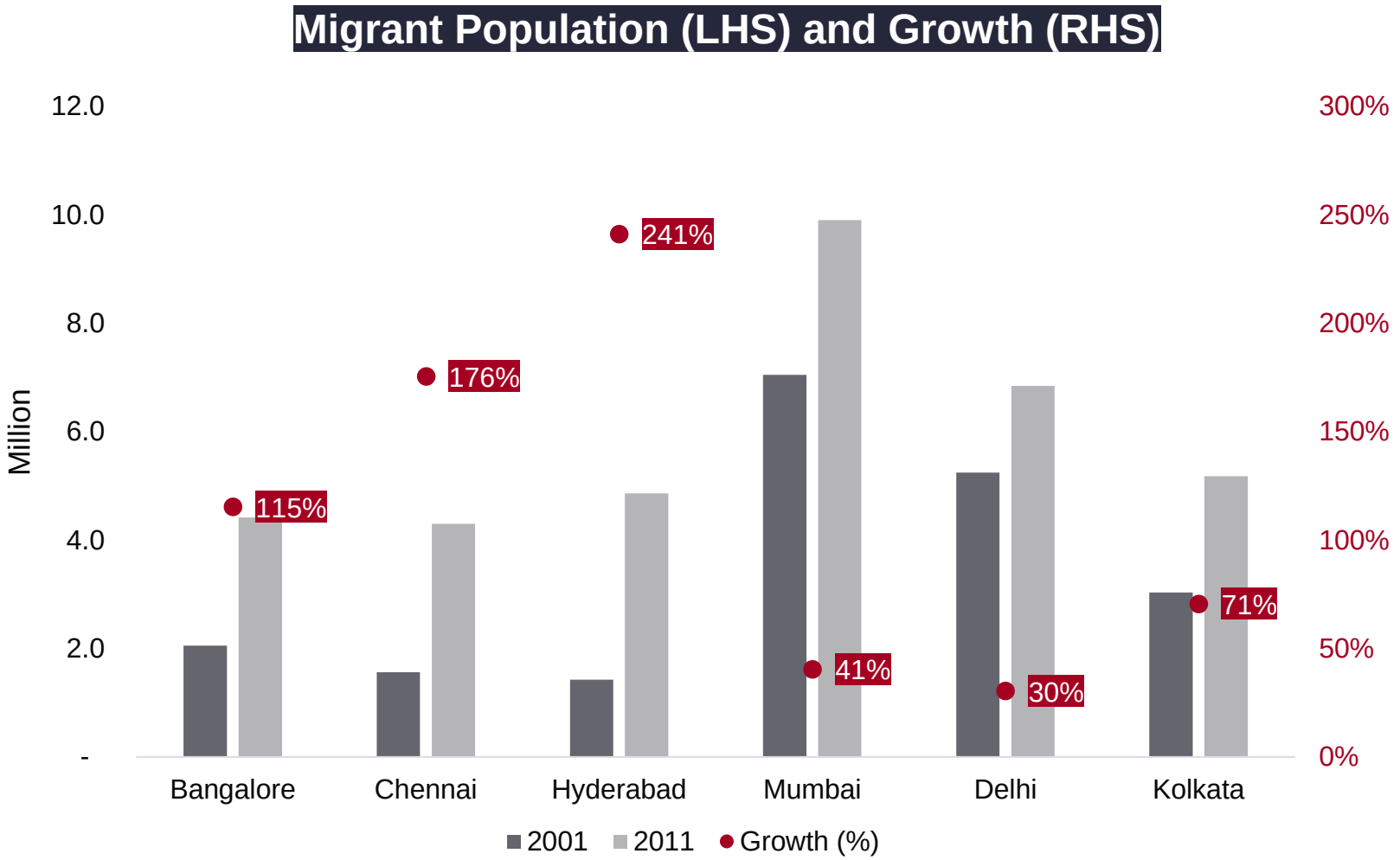



**~ 50% is in 15-44 age group**

**(Age group driving housing demand in the country)**

**Source:** Populationpyramid.net

# CORE DEMAND DRIVERS FOR RENTAL HOMES




**Source:** Census 2011

**MASSIVE RISE & ONGOING WAVES**

- Estimated annual inter-state migration is about 9-10 mn annually (over time, this will only accelerate)
- Though COVID-19 led to temporary reverse migration, income-pulls still hold good and will lead to continued migrations
- Major destination states are **Delhi, Maharashtra, Tamil Nadu, Gujarat, Andhra Pradesh and Kerala**

*Refer World Economic Forum*

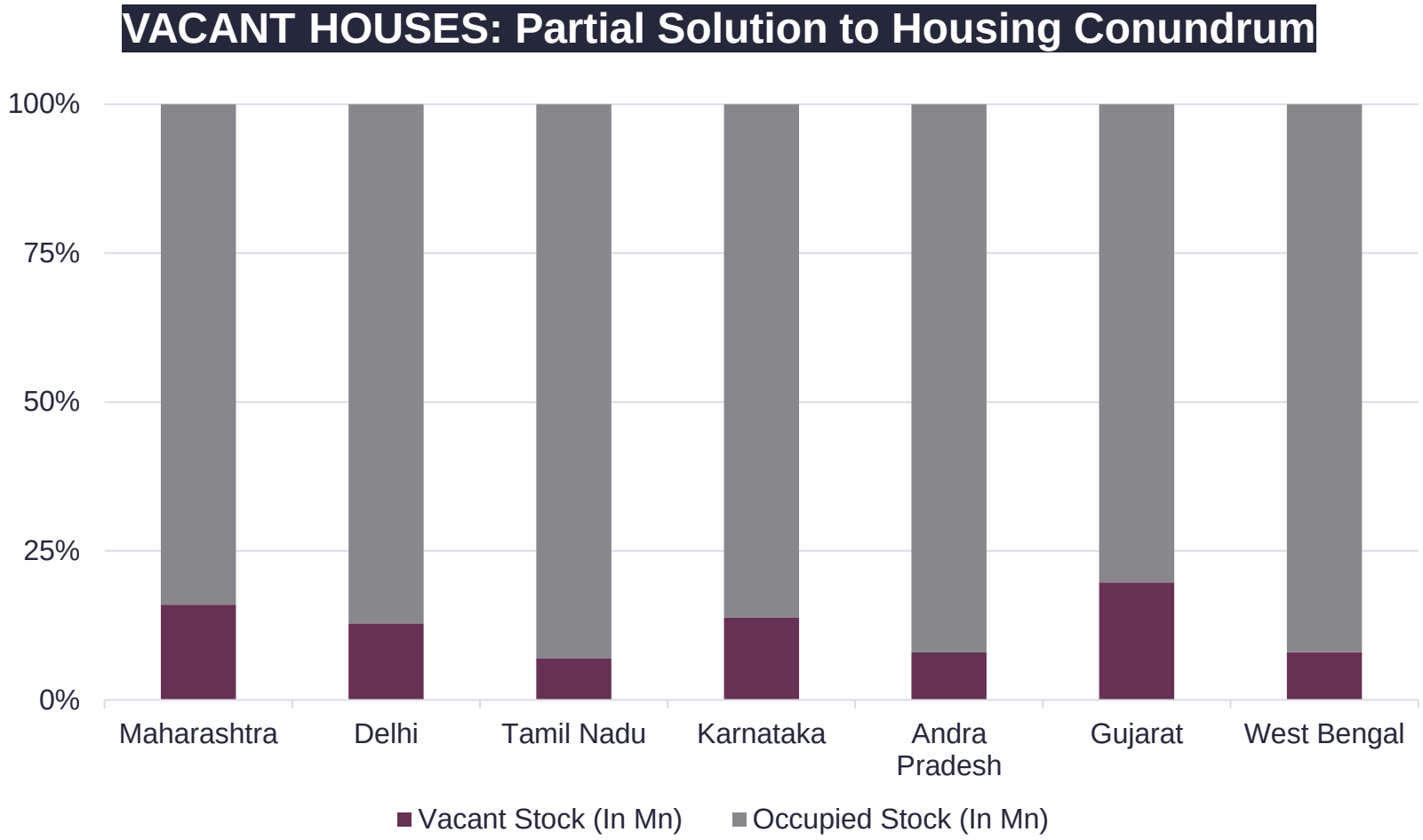
*https://www.weforum.org/agenda/2017/10/india-has-139-million-internal-migrants-we-must-not-forget-them/*

# READY VACANT HOUSES IN OUR STATES

**7-20%**

**READY HOUSING STOCK IS VACANT**

**in Indian states within megacities or urban agglomerations**



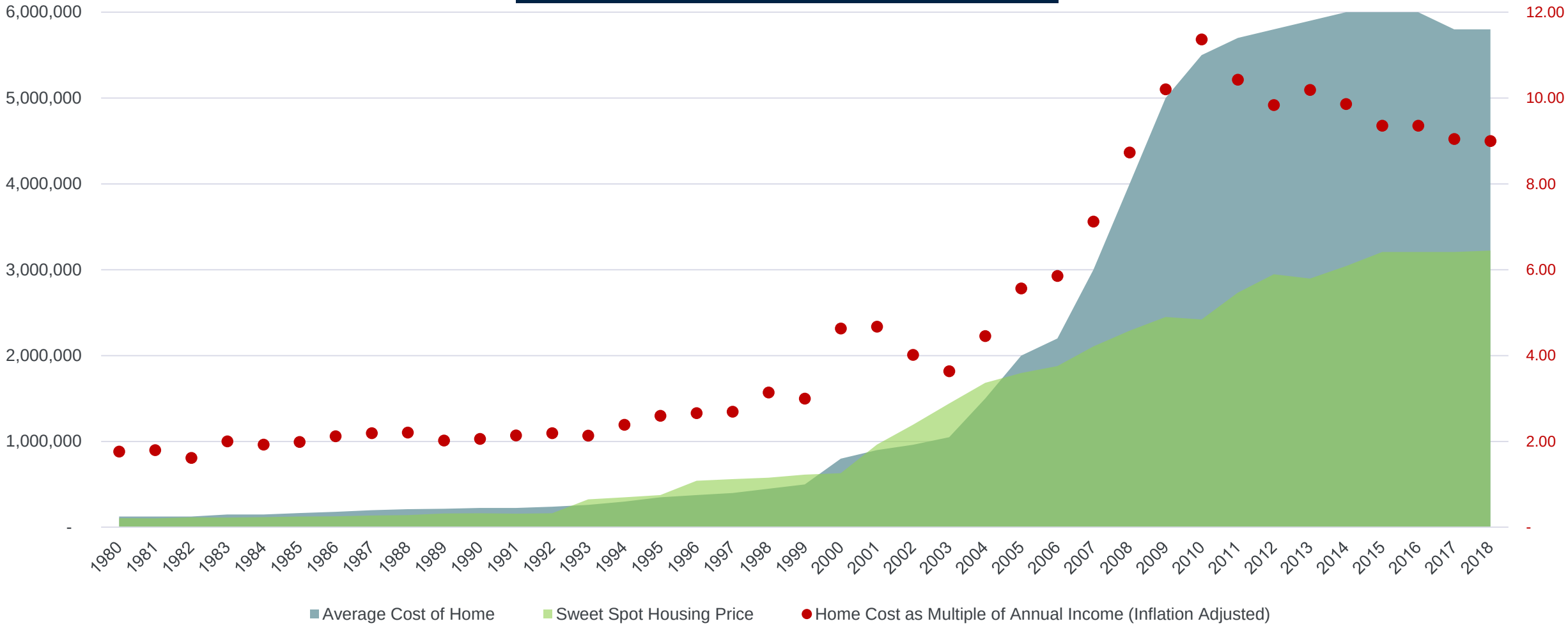

**Source:** Census 2011



# The Case for Rental Housing

# GAPS IN HOME OWNERSHIP

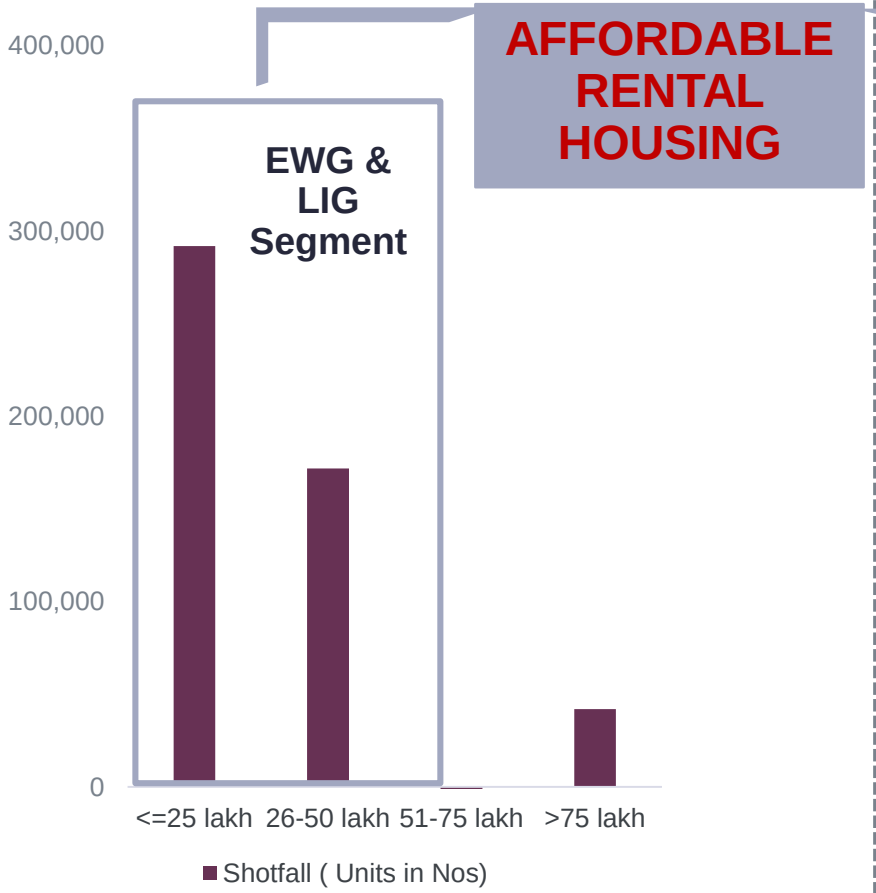
## HOME PRICES AND AFFORDABILITY




**Source:** Savills Research

# HOUSING IN INDIA: BY THE NUMBERS

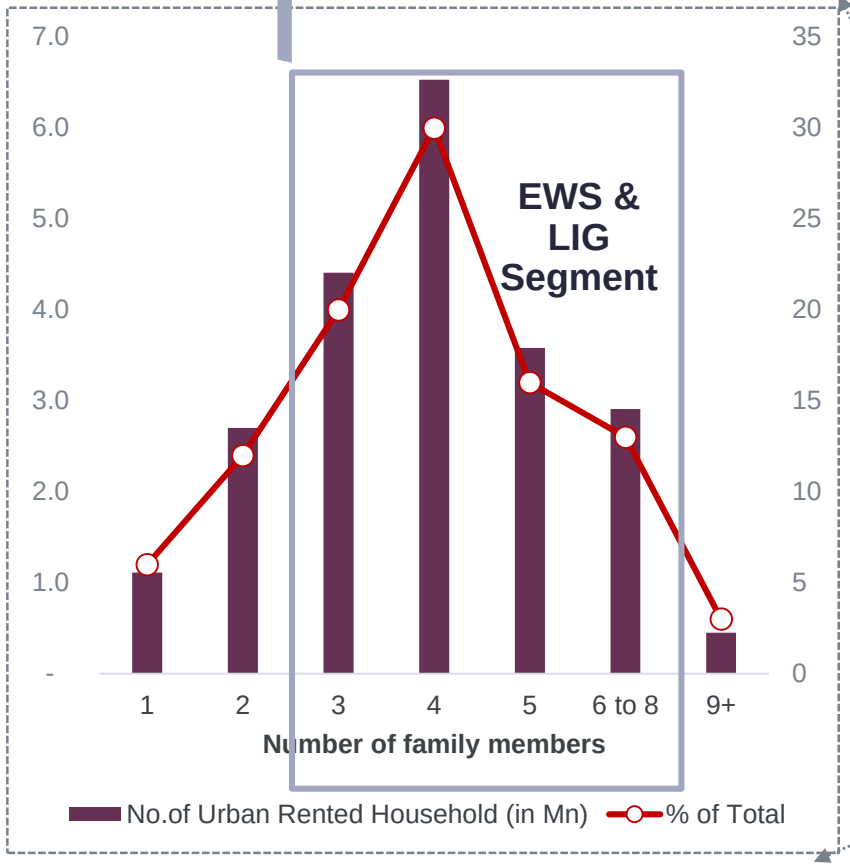
## Demand Supply Mismatch




**Housing Shortfall in Top 8 cities (2019)**

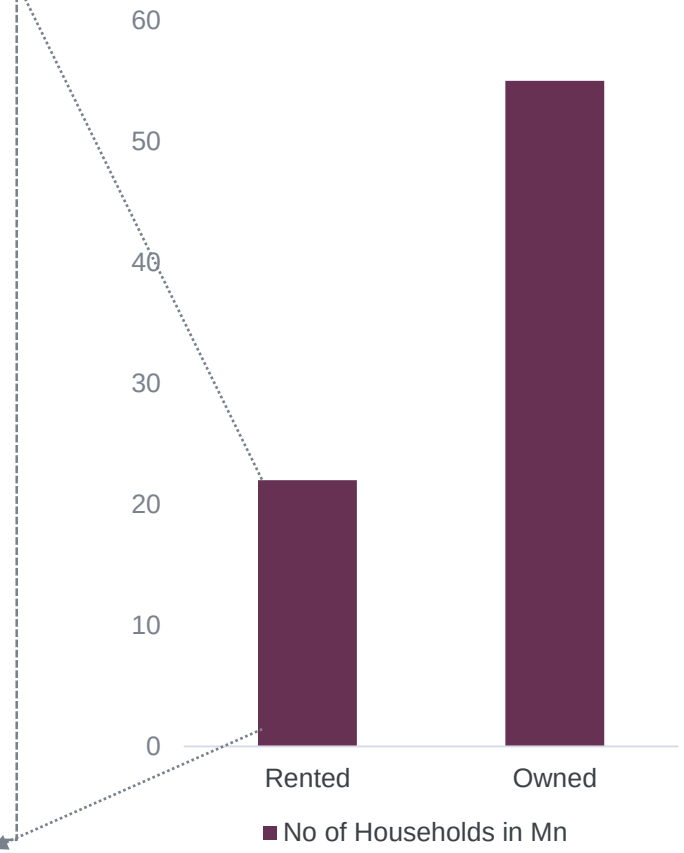
**Source:** Savills Research

## Rental Housing Scenario in India




**Rental Household Sizes**

Source: Census

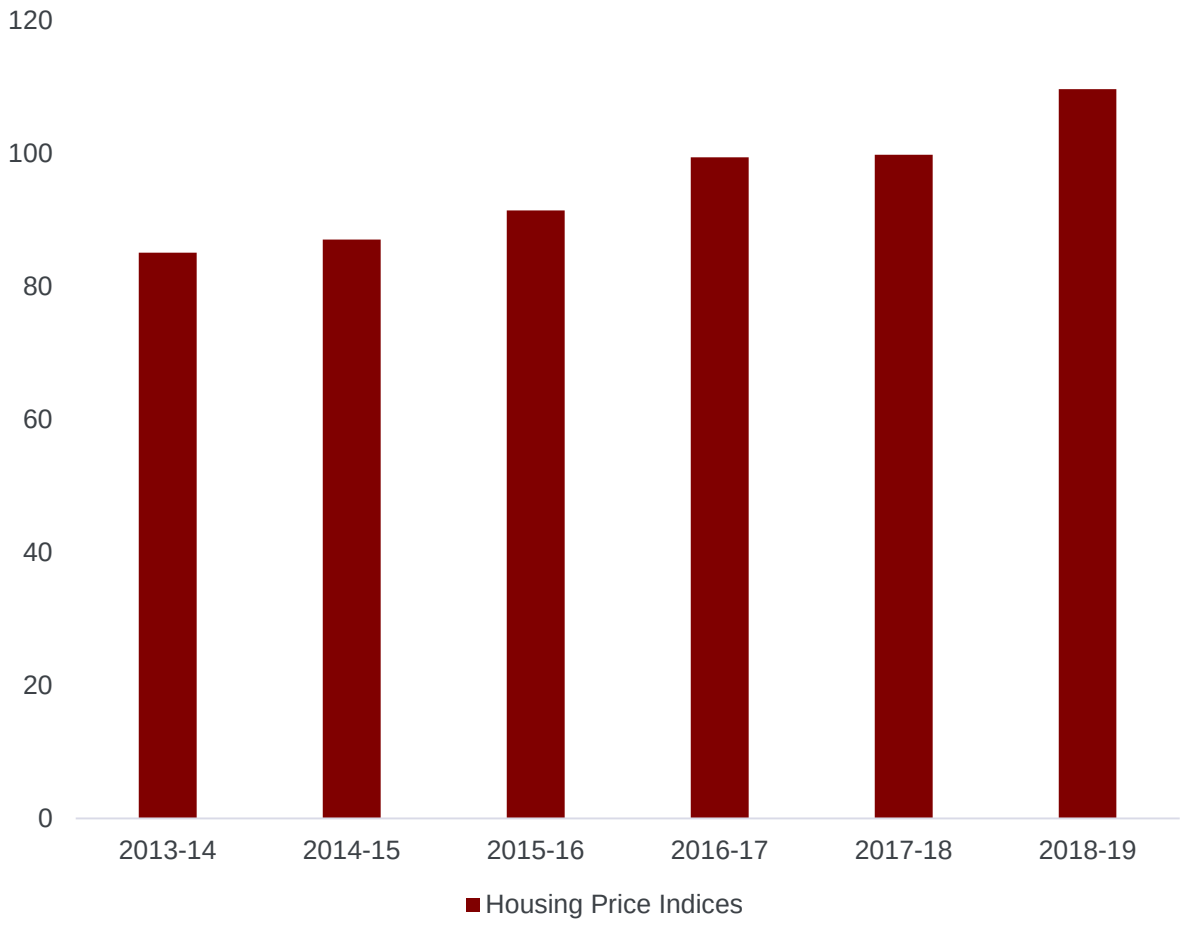



**House Ownership Pattern**

Source: Census

# THE RISING COST OF HOME OWNERSHIP IN INDIA

**Rising cost of house ownership in India**




**Source:** NHB Residex

- Cost of house ownership across India has shown a CAGR of ~ 5% in the past few years
- Average rentals in major cities on the contrary have shown 2% increment per year only.
- Interestingly, rental yields across major cities have remained stable in 2-4% range throughout
- Young people prefer investing in experiences rather than investing in tangible properties like houses
- Developers are now more open to lease out newly constructed apartments, instead of an outright sell



# Rental Housing Pathway

The Operational Guidelines Illustrated

# AFFORDABLE AND RENTAL HOUSING IN INDIA: KEY SCHEMES AND TIMELINES

## 2015:

**Pradhan Mantri Awas Yojana (PMAY)**

- Housing for All by 2022
- Two sub-schemes: Rural & Urban and 3 phases (Ph 1: 2015-17, Ph 2: 2017-19, Ph 3- 2019-22)
- Interest subsidy provided for housing loans in affordable segment

## 2015:

**National Urban Rental Housing Policy (NURHP)**

- Promoting shelter facilities for the most vulnerable groups within the homeless population
- Creation of adequate rental housing stock by promoting social rental housing

## 2019:

**Model Tenancy Act (MTA)**

- Addressing relationship between the lessor & lessee realistically and fairly
- Formation of Rent Authority department
- Capping of security deposit

## 2020:

**Affordable and Rental Housing Complex Guidelines (ARHC)**

- Addresses issue of affordability of rental housing
- Targeted towards labour and migrants in urban centres
- Involves PPP

- PMAY: Implemented
- NURHP: Draft policy
- MTA: Model act proposed, under review stage
- ARHC: Guidelines proposed

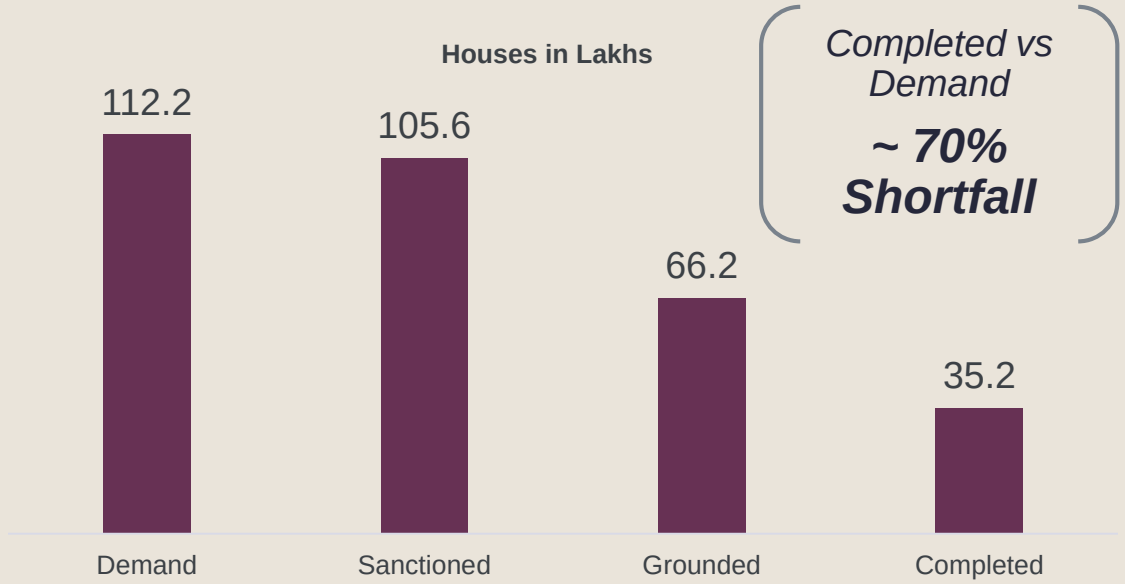
# POLICY THROUGH THE LENS OF CRISIS (COVID-19)

## India Residential Market: A plethora of "Concern Areas"

- **Lack of end user sales in most segments**
- **COVID-19 pandemic has hit the EWG & LIG segment the hardest**
- **Piling of debt burden of most developers**
- **Liquidity crunch in completing stalled projects**
- **Availability and adequacy of labour a critical point in the Post-Covid world**

- The all encompassing goal: Housing for all by 2022 seems uphill task
- Lack of private participation in creation of affordable housing – An Achilles' heel
- Affordable housing segment needs handholding and policy support
- ARHC guidelines- A positive step in the right direction

## Overall PMAY-U status as on Aug 2020




Source: PMAY

**PSUs' vacant unutilized land parcels can become viable for ARHCs, or can be offered at subsidized rates for ARHCs**

- HMT Bearings (Hyderabad 14.48 acre)
- Hindustan Antibiotics (Pune 62 acre)
- Heavy Engineering Corporation (Ranchi 60 acre)
- Indian Drugs and Pharmaceuticals (Gurgaon 10-15 acre)



# ARHCs: The Models

## The Operational Guidelines Illustrated

# Affordable Rental Housing Complexes: In a Nutshell

- Sub-scheme of the Pradhan Mantri Awas Yojana- Urban
- Affordable Rental Housing Complexes (ARHCs) is a part of the government's economic package to address the Covid-19 crisis.
- The scheme is in line with the vision of AtmaNirbhar Bharat
- Dwelling Units
  - Single bedrooms upto 30 sqm
  - Double bedroom upto 60 sqm
  - Dormitory Bed of upto 10 sqm carpet area

**OBJECTIVES:**
Atma Nirbhar Bharat, Housing for All, New ecosystem creation

**TARGET BENEFICIARIES:**
EWG and LIG Section- Urban migrants/poor engaged in sectors such as manufacturing, hospitality, health, construction, etc.

**STRATEGY:**
3Es- Empowering States/UTs, Ease of Doing Business(Single window clearance), Ensuring sustainability

The initial rent of ARHCs will be fixed by Local Authority.

**MODEL I**

**Converting existing Government funded vacant houses into ARHCs through Concession Agreement**

**MODEL II**

**Construction, Operation & Maintenance of ARHCs by Public/ Private Entities on their own available vacant land**

# Model-I: Existing Govt. Funded Vacant Houses

Inventory creation, project wise estimation of repair cost

↓

Fixing affordable rent for each project and RFP request

↓

Selection of concessionaire based on highest positive premium/ lowest negative premium

↓ Viability gap funding will be provided in case of negative premium

Repair/Retrofit & gap filling of infrastructure by concessionaire

↓

O&M by concessionaire for 25 years and profit sharing

↓

Handover of ARHC after end of contract period

**Cashflow modality for the concessionaire**

CASH INFLOWS

>> Gap funding from govt. if applicable

>> Monthly rents from tenants

>> Initial retrofitting cost

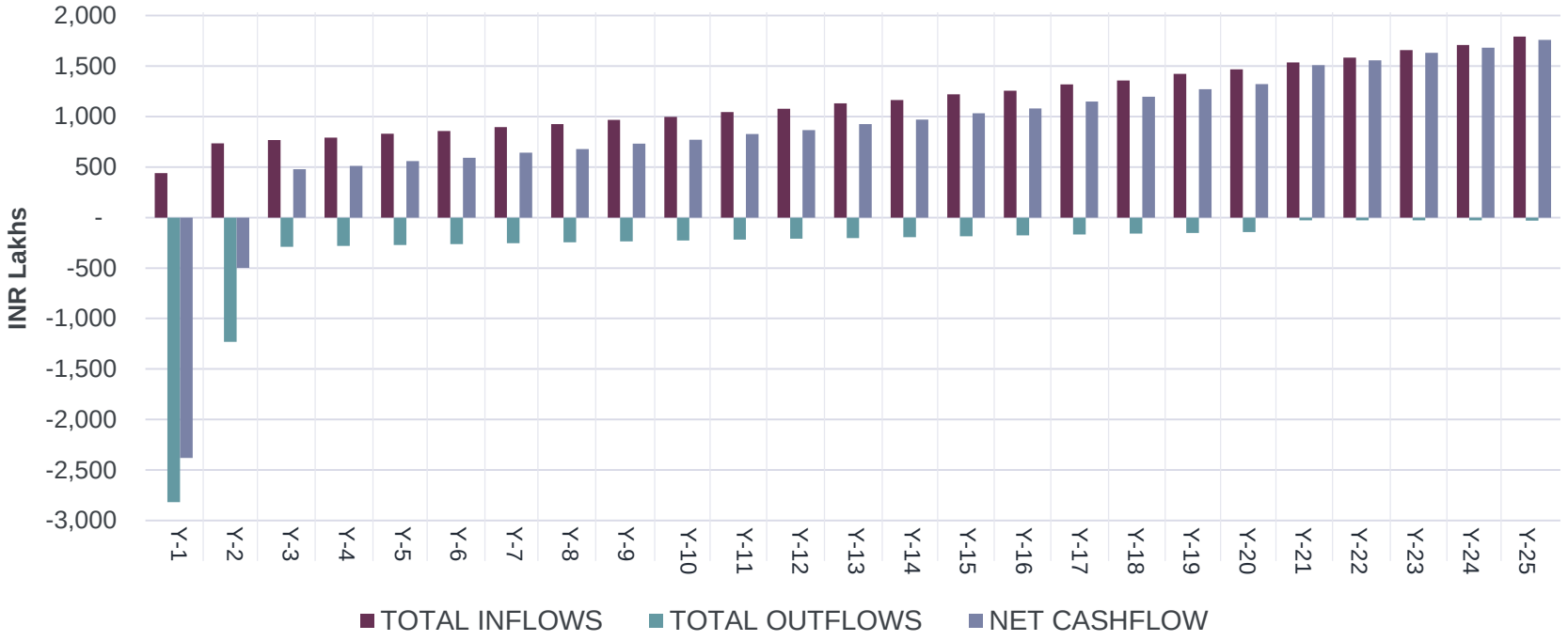
>> Regular O&M cost for 25 years

>> Interest payments of loans (if taken)

CASH OUTFLOWS

# Illustrative Analysis – Model-I *(Faridabad example of 2,545 Units)*

## PROJECT SUMMARY




## KEY FEATURES

**NPV**
INR Lakhs
2,280

**PBP**
Years
8

**IRR**
20%

**Peak Investment (Y-2)**
INR Lakhs
-2,878

## Assumptions

**Premium INR 11.10 cr** calculated in reverse,

by targeting a project IRR, say 20%

Monthly Rent - **INR 3,000** pm with 8% escalation every 2 years

O&M Expense- **Rs 1 per sq.ft**; 10% increment every year

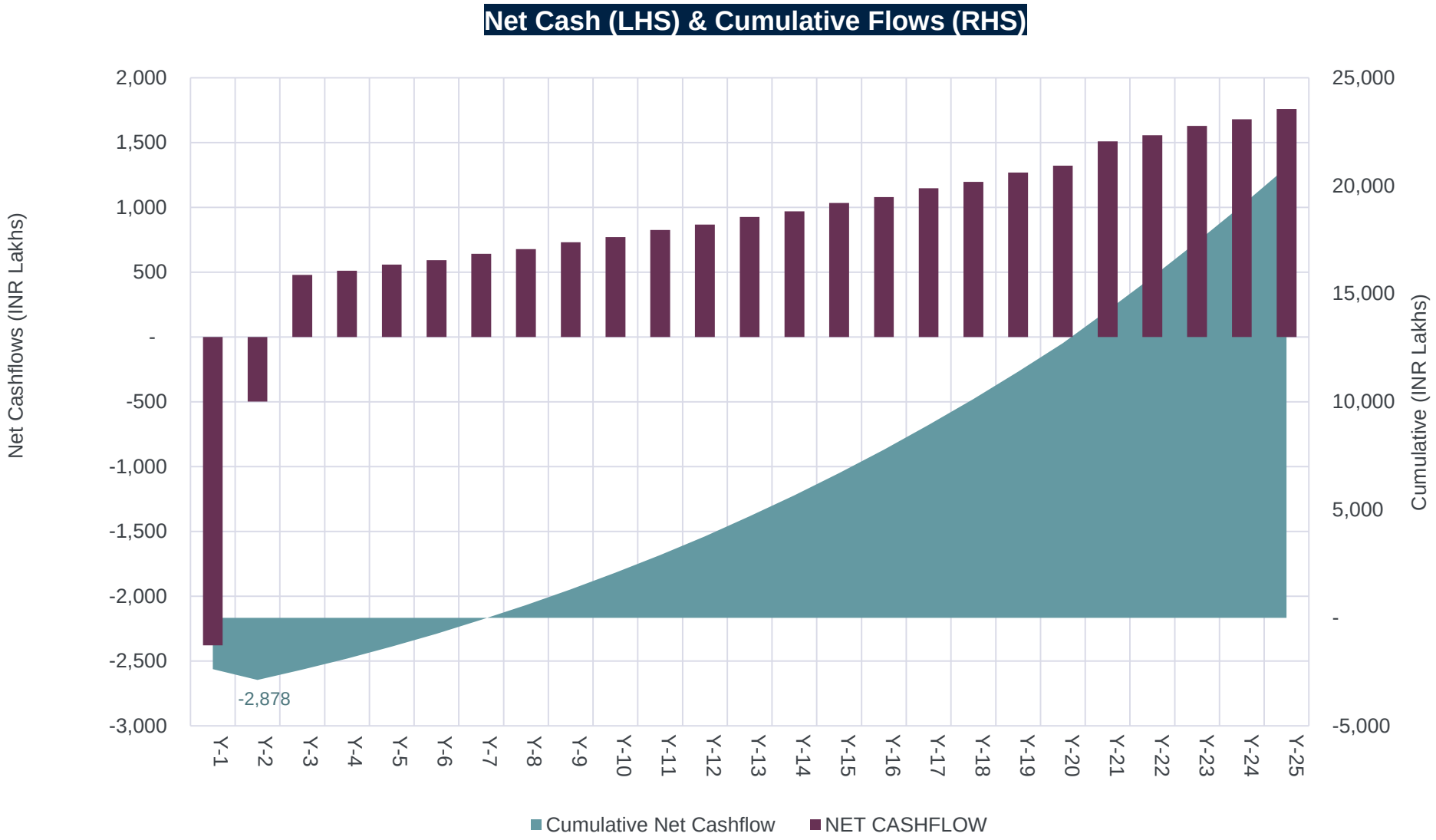
Major Maintenance- 1/10th of Retrofitting cost every **5 years** with annual escalation of 10%

Retrofitting cost- **INR 90,000** per DU

Loan interest- **8% pa**; Equal repayment schedule over 20 year amortisation period

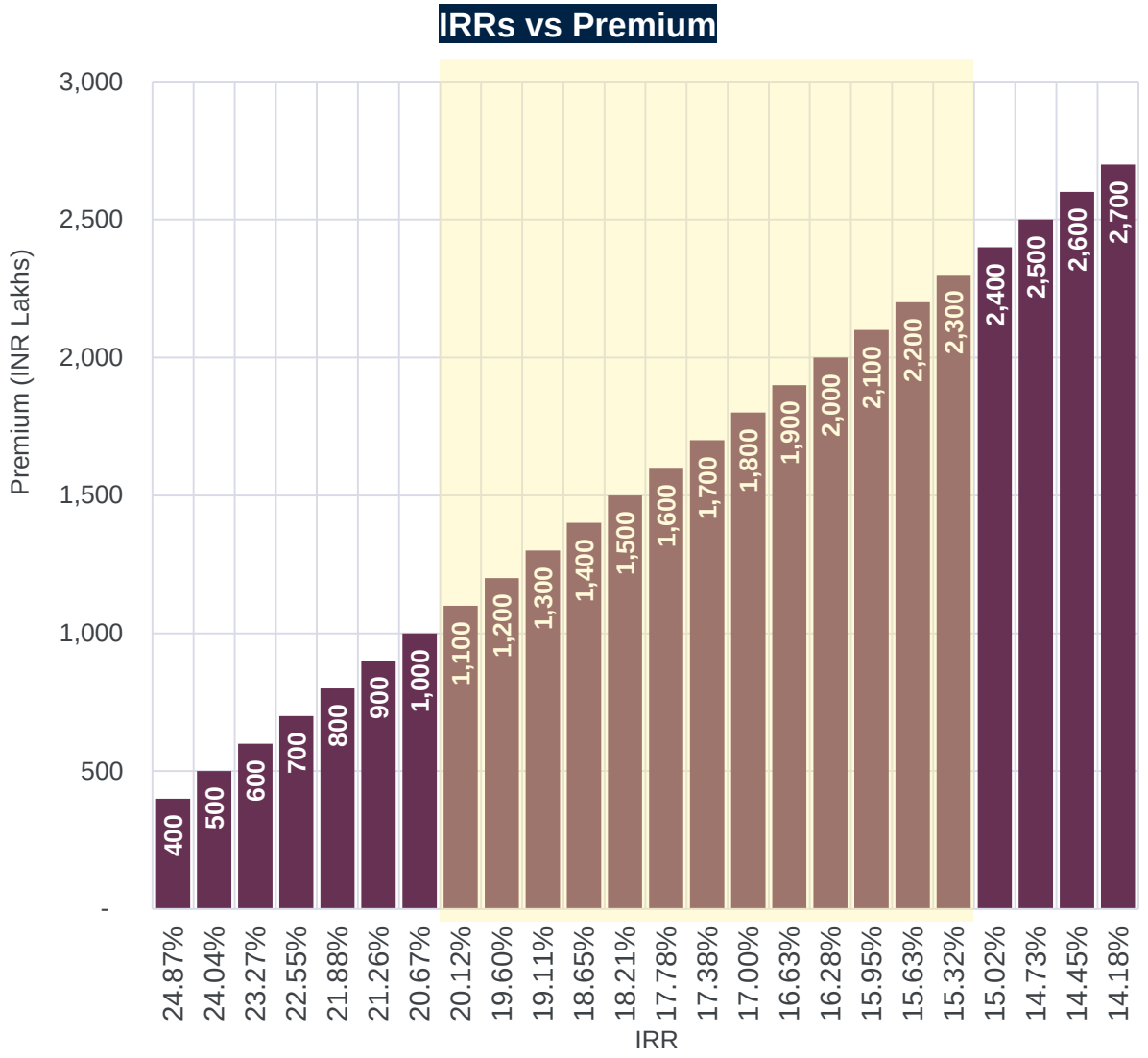
**Pre-Tax Workings** are presented

# Illustrative Analysis – Model-I…




**Typical recovery period of 6-8 years**

# Key Sensitivity in Model-I




**For the Concessionaire:**

**The model's success is greatly dependent on the**

**BALANCE BETWEEN PREMIUM & IRR**

**The Sweet-spot in this example is**

**A Premium between INR 11 – 23 Crores**

# Model - II

## Construction, Operation and Maintenance of ARHCs by Private/ Public Entities on their own vacant land

Submission of Expression of Interest, Detailed Project Reports, Screening of individual projects and finalisation of approved projects

↓

ULBs will facilitate and fast-track approvals for all construction related activity

↓

Entity to construct the complex keeping in mind the ratio and unit structures of individual dwelling units

↓ Technology Innovation grant from Govt to the entity as per applicability

Fixing of initial, affordable rent of ARHCs by entity as per local survey.

↓

Operate & Maintain for 25 years

**Cashflow modality for the private/public entity**

CASH INFLOWS

>> Technology innovation grant from govt. if applicable

>> Monthly rents from tenants

>> Land cost, if applicable

>> Total construction cost

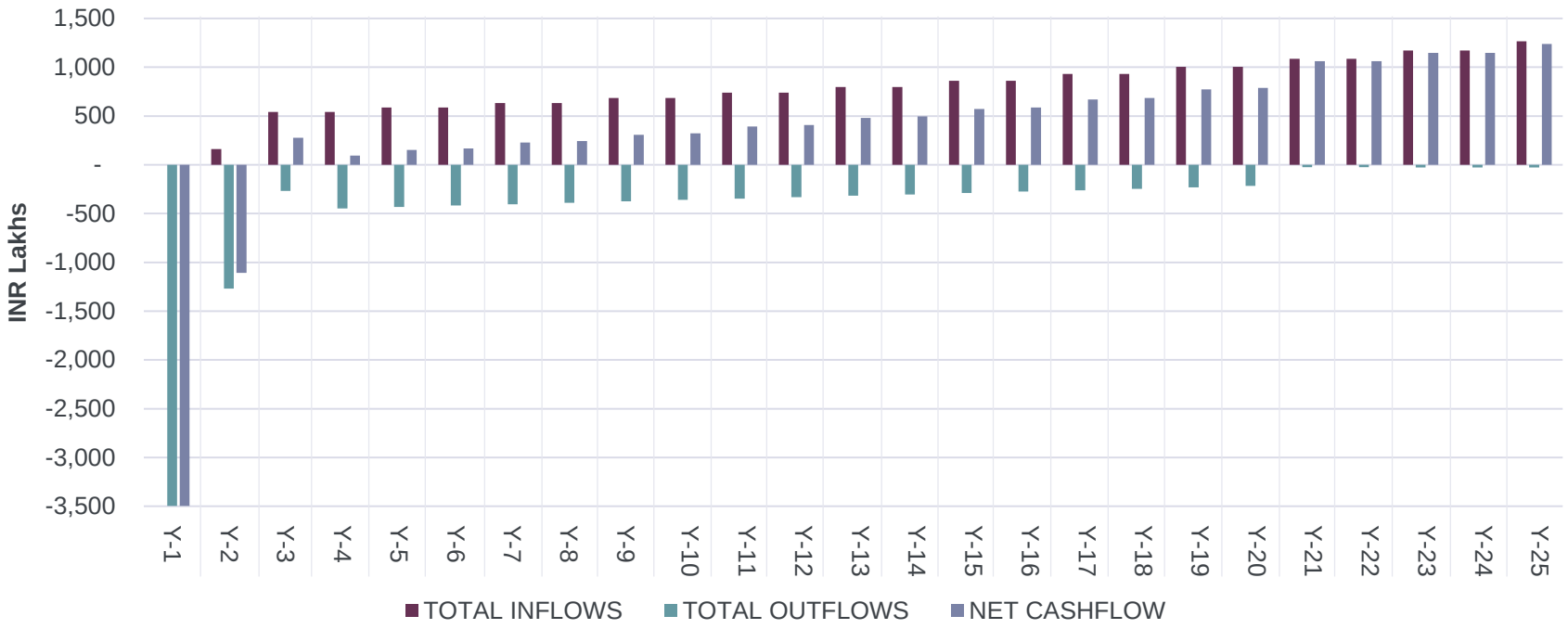
>> Regular O&M cost for 25 years

>> Interest payments of loans (if taken)

CASH OUTFLOWS

# Illustrative Analysis - Model-II

## PROJECT SUMMARY




## KEY FEATURES

| | |
|---|---|
| **NPV** INR Lakhs 137 | **PBP** Years 16 |
| **IRR** 10.2% | **Peak Investment (Y-2)** INR Lakhs -4,603 |

| | UNITS | RENT |
|---|---|---|
| 1 BHK | **290** | **4,500 pm** |
| 2 BHK | **100** | **7,500 pm** |
| Dormitory | **30 (6 bed each)** | **16,500 pm** |
| Commercial | **40 (550 sqft)** | **130 psf pm** |

## Assumptions

460 dwelling units in 1 ARHC at a typical outer suburb; with 2 acre land (valued at INR 5 cr per acre)

Construction spread over 18 months

Construction cost INR 1,600 per sq.ft.

Project income reckoned for 25 years after construction (chart shows only up to Y25)

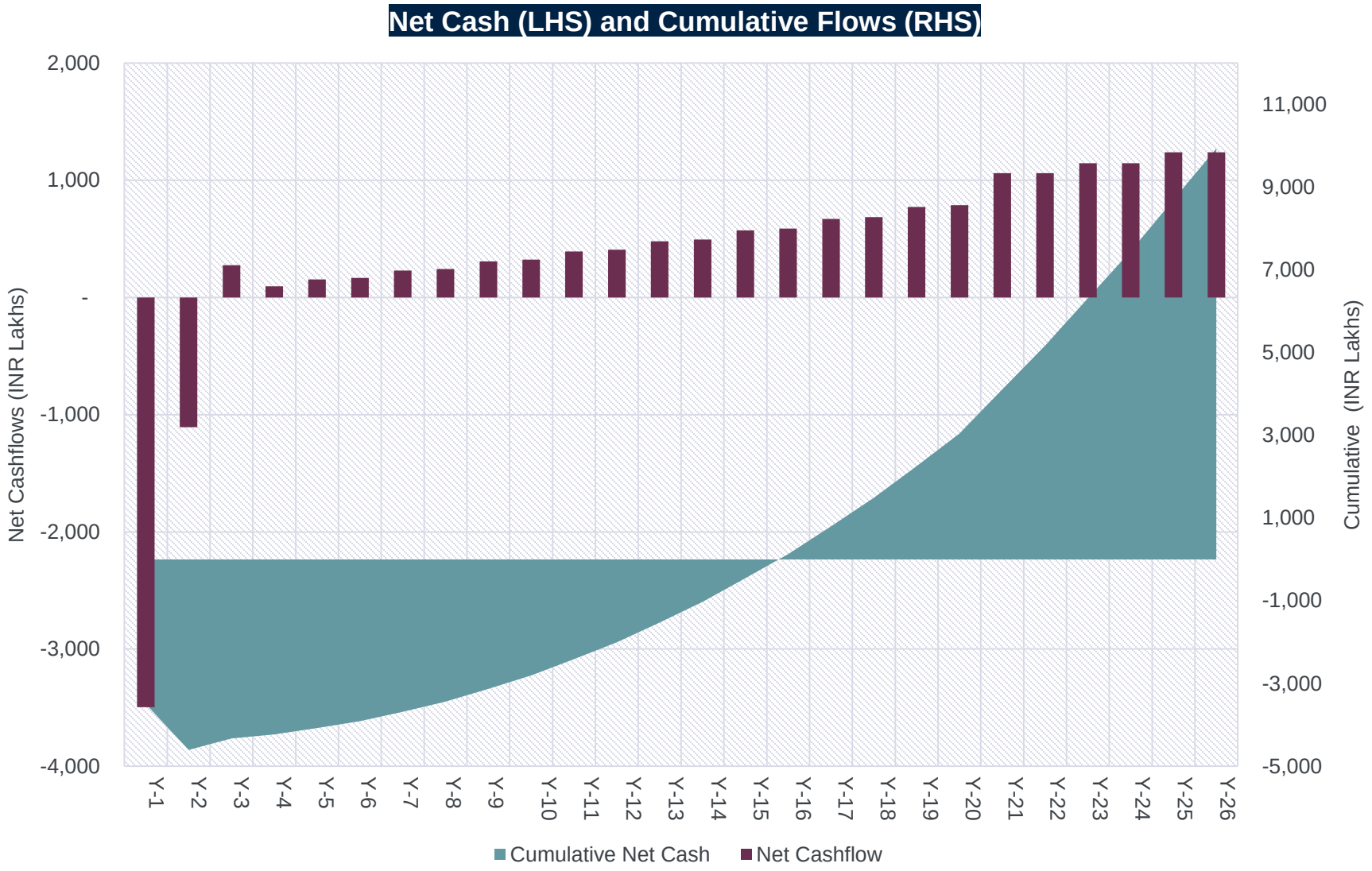
O&M Expense- **Rs 1 per sq.ft**; 10% increment every year

**Major Maintenance-** Same as Model 1

Loan interest- **8% pa**; repayment schedule over 20 year amortisation period

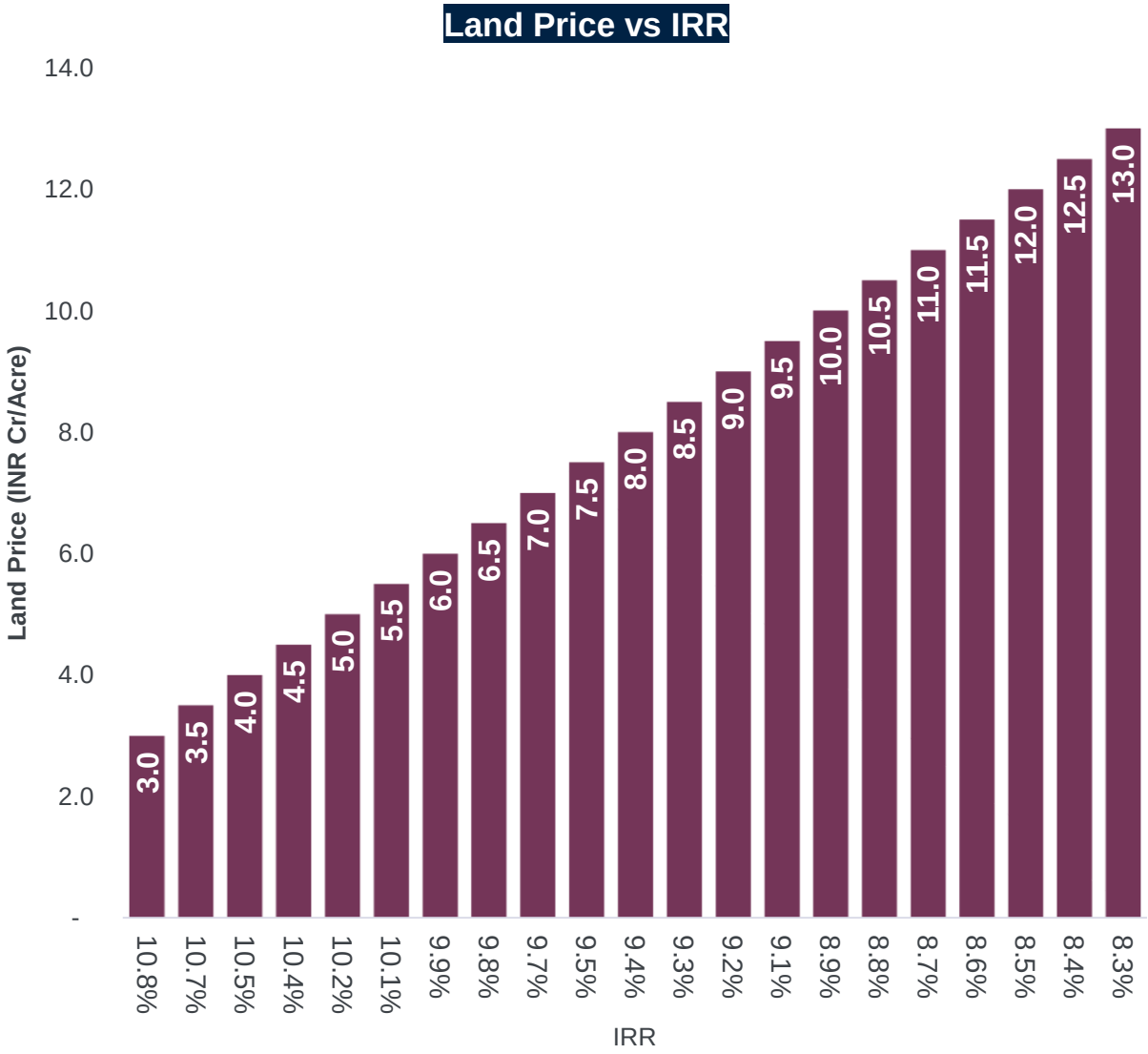
**Pre-Tax Workings** are presented

# Illustrative Analysis – Model-II…




**Protracted recovery period of 14-16 years**

# Key Sensitivity in Model-II




**For the Èntity:**

**The model is dependent on managing the**

**CAPTIAL COSTS**

**The workable range this example is Land value below INR 5.5 Crores/ acre**

**Historic assets are the key.**

# M-1 vs M-2 Comparative

| | MODEL-1 | MODEL-2 |
|---|---|---|
| Total Units | 2,545 | 460 |
| Total Outflow 25 Years (INR) | 81 Cr | 108 Cr |
| Capital Deployed (INR) | 34 Cr | 42 Cr |
| Total Income – 25 Years (INR) | 289 Cr | 221 Cr |
| Net Cash – 25 Years (INR) | 208 Cr | 262 Cr |
| NPV (INR) | 22,79 Cr | 1,36 Cr |
| Peak Negative cashflow (INR) (Y2 in both) | -28,78 Cr | -46,02 Cr |

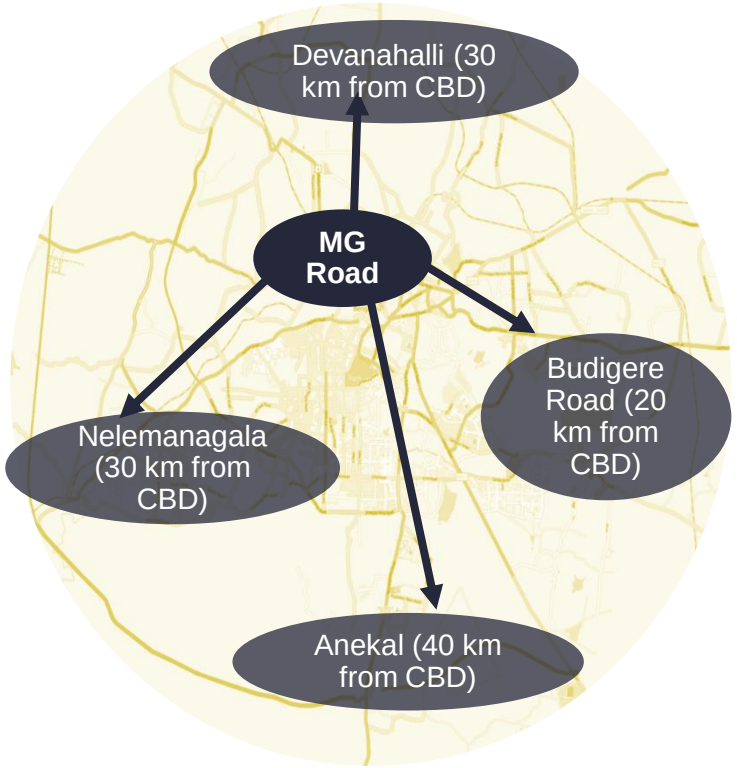
| | MODEL-1 | MODEL-2 |
|---|---|---|
| Outflow Per Unit (INR) | 3,18,000 | 23,60,000 |
| Capital Deployed Per Unit (INR) | 1,36,000 | 9,23,000 |
| Net Income to Capital Deployed | 2.58 | 2.41 |
| NPV Per Unit (INR) | 90,000 | 30,000 |
| Peak Investment Per Unit (in Y-2 for both) (INR) | -1,13,000 | -10,00,000 |

## TAKEAWAYS & CHALLENGES

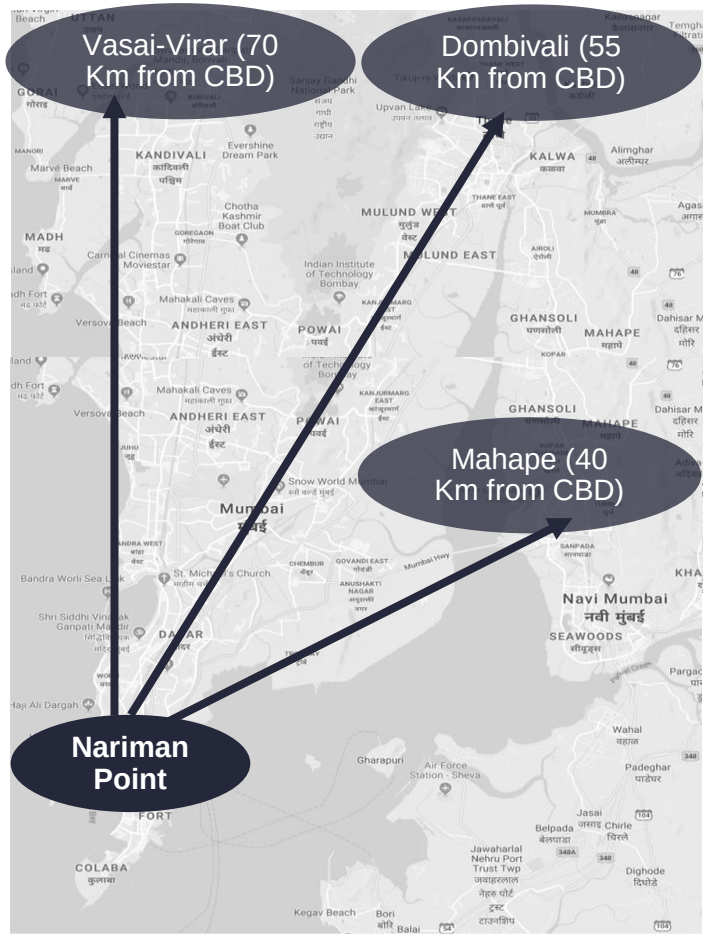
- Premium (calculation & payment) will hold the key to M-1
- M-2 is viable in city locations, if land comes at historic value: IRR can be higher
- Self-construction or options like contract will become vital: Construction cost outlay creates the main difference between the two models
- Capital per unit could be 4-5 times in M-2; Outflow could be 5-6 times in M-2
- Top Quality O&M needed to manage large-scale repair expenses: Can lower the returns
- M-2 may be difficult in large cities: Land at INR 5-cr per acre or less is in distant locations *(shown next…)*

# M-2 Favorable Land Value: Distance from CBDs

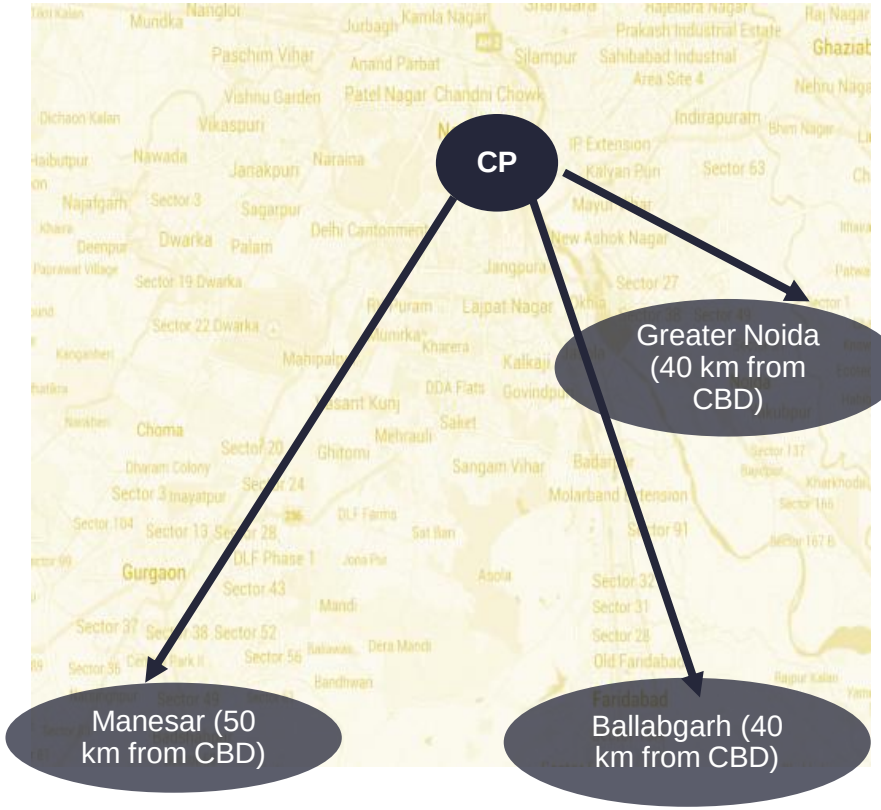
## BANGALORE




## MUMBAI




## DELHI NCR



# Strengths and Bottlenecks

## STRENGTHS

- Targets to provide affordable housing to migrants closer to workplaces, within the city suburbs
- Incentivizes private participation with viability gap funding, floor space relaxations, technology grants and tax subsidies
- Creation of Monitoring Committee for supervising the entire lifecycle of ARHCs
- Single window clearance for approvals
- Utilization of vacant government premises for housing

## CHALLENGES

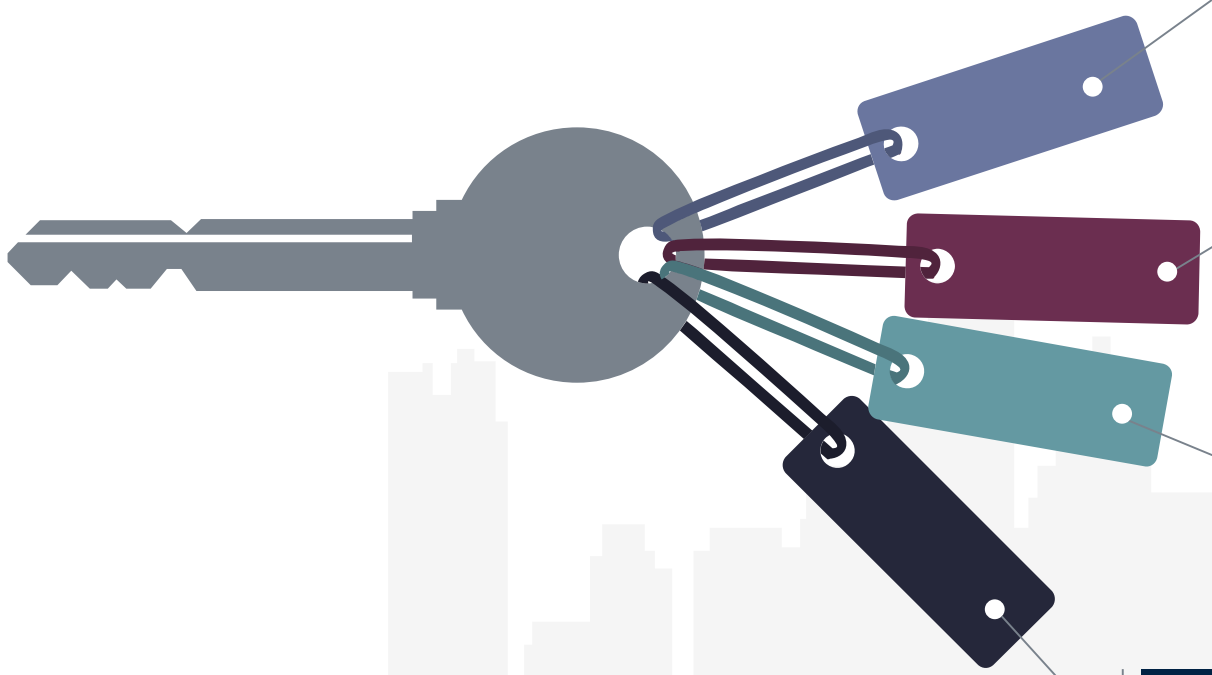
- Land remains a challenging and pricey proposition in urban areas- Might hinder private participation
- New social and security set-ups in proximity will require municipal and development authority's active role
- Competition among bidders and pre-bid marketing efforts should receive focus, to maximise the Premium potential in M-1

# ARHCs: What's in store for the private investor?

- Long term investment play
- Relatively stable returns
- Continuous support in terms of incentives and policy push
- Entry point for large investors aiming for a listing
- Can match risk-return profiles of offshore wealth, insurance and sovereign funds

# Rental Housing: Future Possibilities and Needs

## STEPS TO ENHANCE THE RENTAL HOUSING MARKET IN INDIA



### Longer Tenures & Ownerships Distribution

- Use 99 year terms (Singapore model – Refer Annexure)
- Aim for Private and Community Ownerships (Germany model – Refer Annexure)

### *Apartment REITs in Future*

- *Professionally managed*
- *Longer term solution*
- *Enhance the returns*

### *Creative & Innovative Income Benefits*

- To attract investors in larger numbers
- *For example, Negative Gearing: the Concept used in Australia which helps in enhancing returns (a detailed study on the same is needed – outside the scope of this session)*

### *Co-Develop Collateral Propositions*

- *Co-Living models (example shown the Annexure)*
- *Senior Living models*
- *Any other shared economy model*

# Thank you



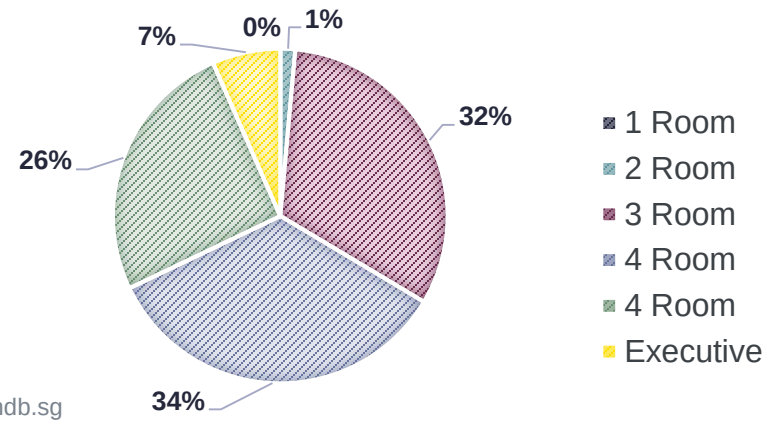
# Annexures

# Rental Housing: In other countries

## SINGAPORE

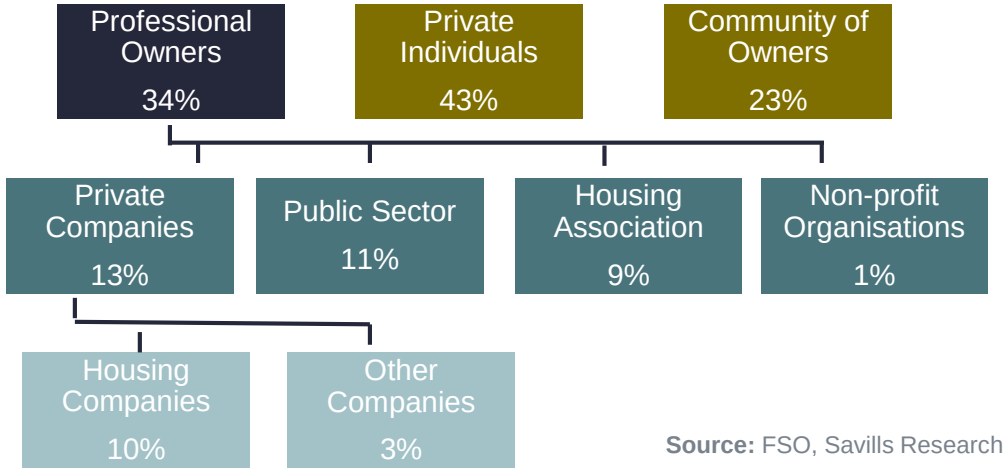
- Housing is a **social asset** in the country
- The **Housing and Development Board (HDB)** provides affordable and high-quality housing for most of the country's residents
- **More than 80%** of Singapore's residents live in housing provided by the development board
- Houses are issued on a 99-year lease basis, with financing readily available, including that provided by the **Central Provident Fund (CPF)**
- CPF is a **compulsory scheme** like the EPF in India- Homebuyers can fund leasing of an HDB flat by using the corpus in CPF.

### Singapore: Rental approvals by HDB (2019)




**Source:** hdb.sg

### Germany: Rental Apartment Market Ownership Structure



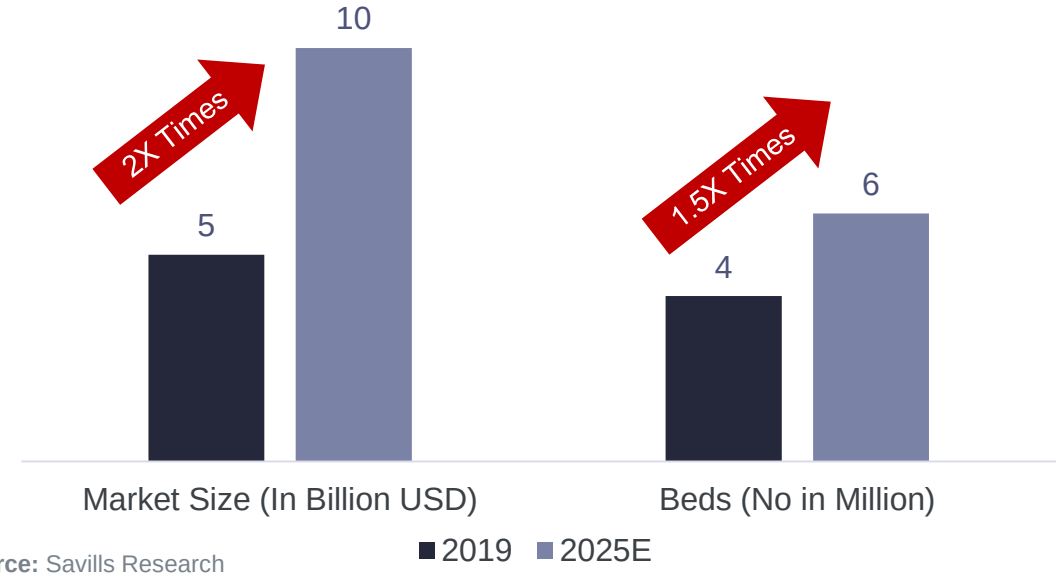

**Source:** FSO, Savills Research

## GERMANY

- **Largest** rental market in Europe
- As per 2011 census, the country has more than 40 million housing stock, and more than **50% of that is used for rental purposes**.
- Rental market is quite **regional in nature** - with a low-high range of 24%-82% *(percentage of rental apartments in the total housing stock of the district)*
- Interestingly, almost **2/3rds of rental apartments are owned by private individuals.** Private companies have a very low share in the country's rental market
- Deep diving into the private company share, points to a **high concentration in Berlin** (~17%)

# Co-Living: Supporting the rental housing market

## Co-Living: Complimentary to the rental housing market




**Ssource:** Savills Research

## Co-Living: Potential in India

- Target segment - Working professional and students from viable backgrounds
- Investors may combine affordable rental market and co-living market to achieve higher returns and diversify residential portfolio
- Nascent market expected to ride through the pandemic uncertainty, emerging shakily at present

## EMERGING TRENDS

- Operator preference for Built to Suit Models
- Greater options to customer for refurbishing and customisation
- Focus on holistic community experience
- Established brands expected to command premium
- Consolidation of the market in long-term