



State of the Affordable Housing Sector in India

Prepared for: Department For International
Development

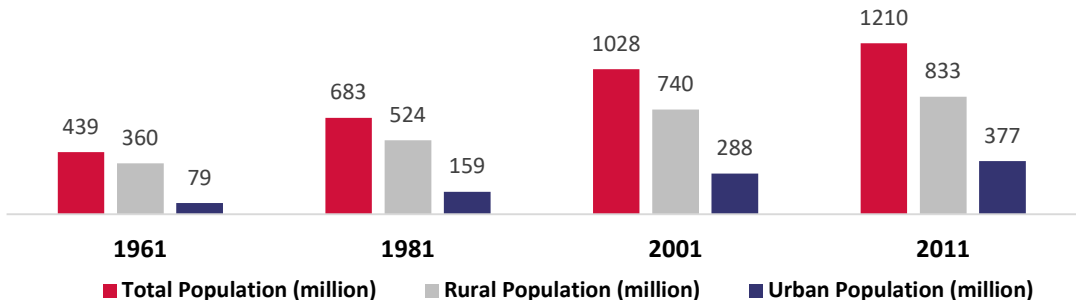


Prepared by: Knight Frank India Pvt. Ltd.



Growth of Population and Urbanisation in India

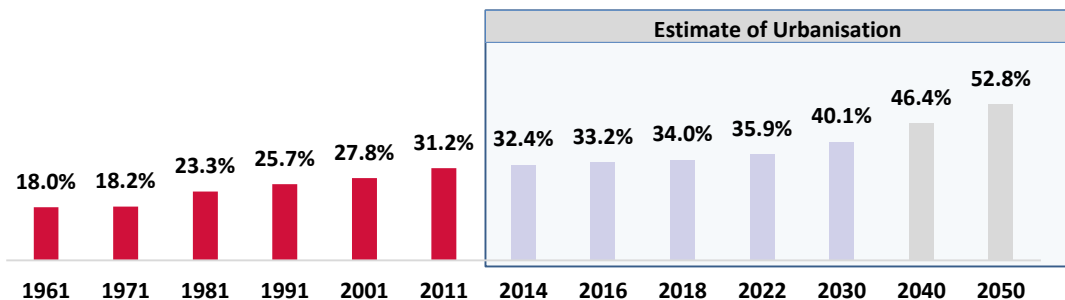
Growth of Population in India



Source: Census of India + KF Analysis

- In the period 2001 – 2011, the growth rate of population in rural and urban areas was 12.18 percent and 31.80 percent respectively.
- Estimates suggest rapid urbanization in India, thus increasing the demand for housing and infrastructure in Urban areas.
- Contrary to widespread perception, rural-urban migration is not the primary driver for growth of Urbanisation in India.

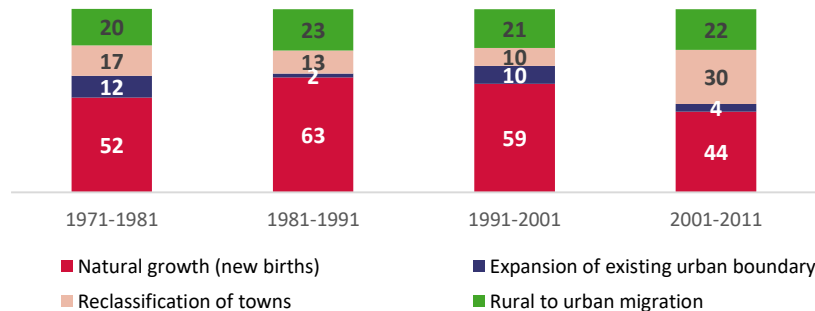
Growing Urbanization in India



Source: Census of India + KF Analysis, Estimate of urbanization by United Nations

Factors driving growth of Urbanization in India

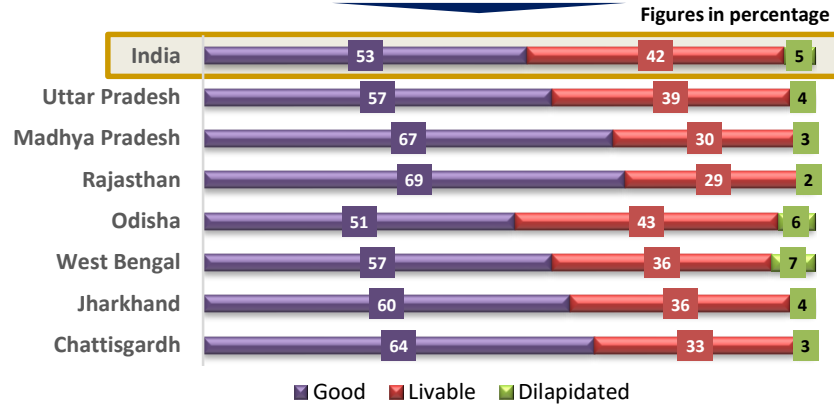
% Share of growth contributed by factors



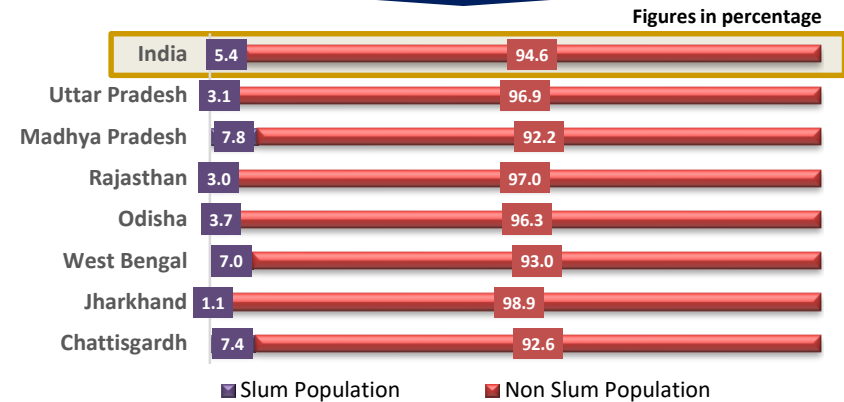
Source: Centre for Policy Research

Condition of Housing Stock in Urban Areas

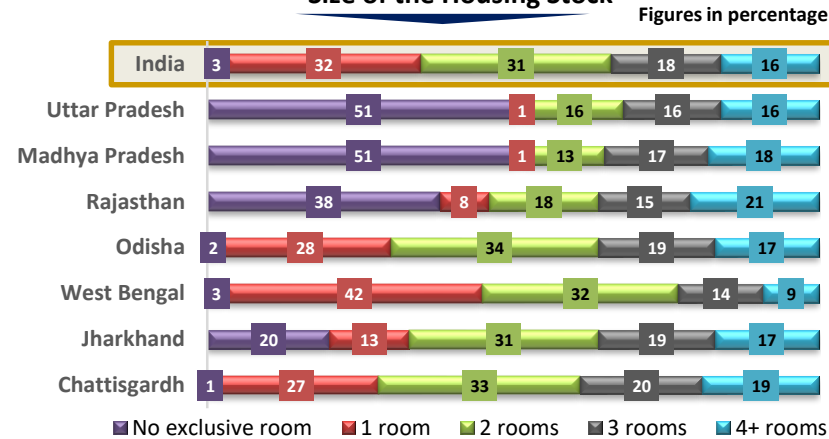
Condition of Housing Stock



Slums as percentage of Total Population



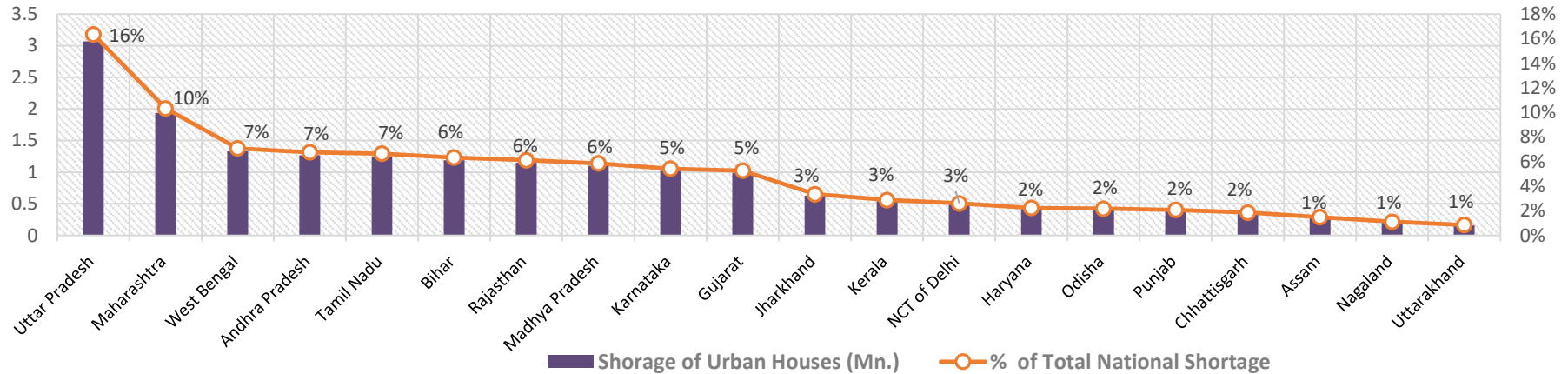
Size of the Housing Stock



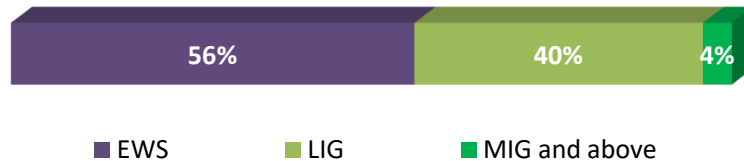
Source: Census of India 2011 + KF Analysis

Shortage of Urban Housing in India

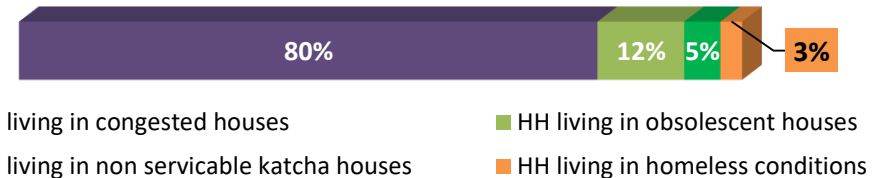
Statewise Shortage of urban Housing in India



Distribution of Housing Shortage by Segment



Factors driving Housing Shortage

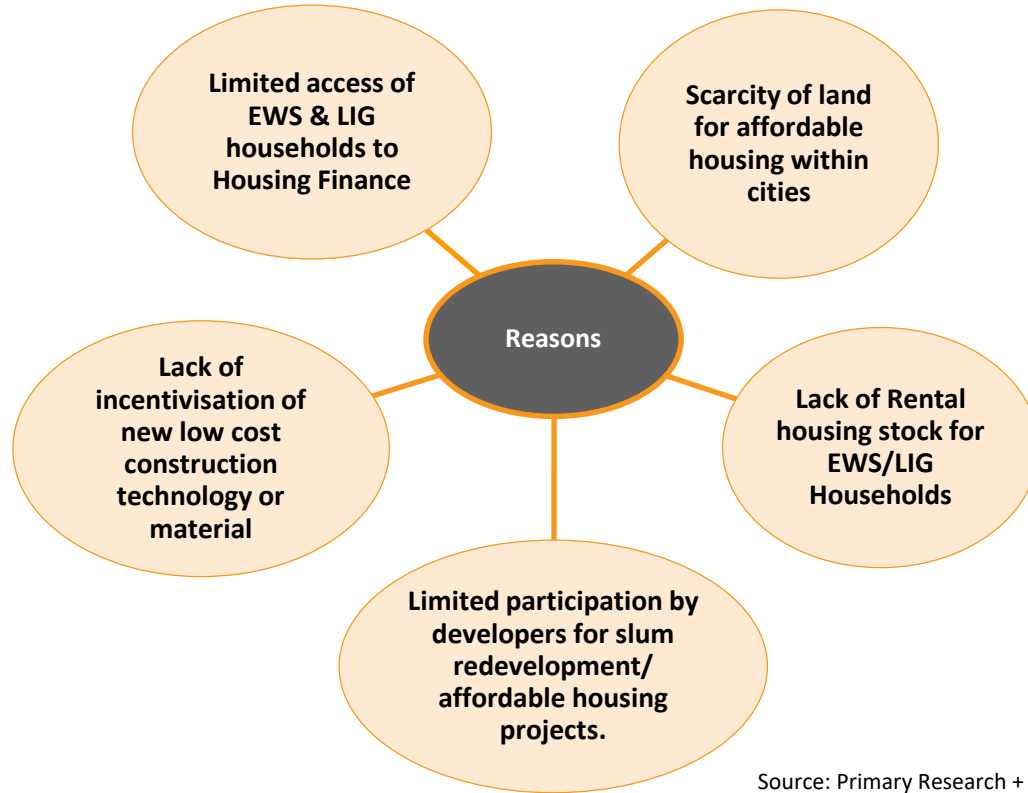


96 percent of the housing shortage is driven due to congestion within the housing unit and lies in the Affordable Housing (EWS+LIG) Segment

Source: Report of the Technical Urban Group (TG-12) on Urban Housing Shortage 2012-17, Ministry of Housing and Urban Poverty Alleviation, September 2012

Reasons for Shortage of Affordable Housing

Shortage of Affordable Housing due to Market Conditions

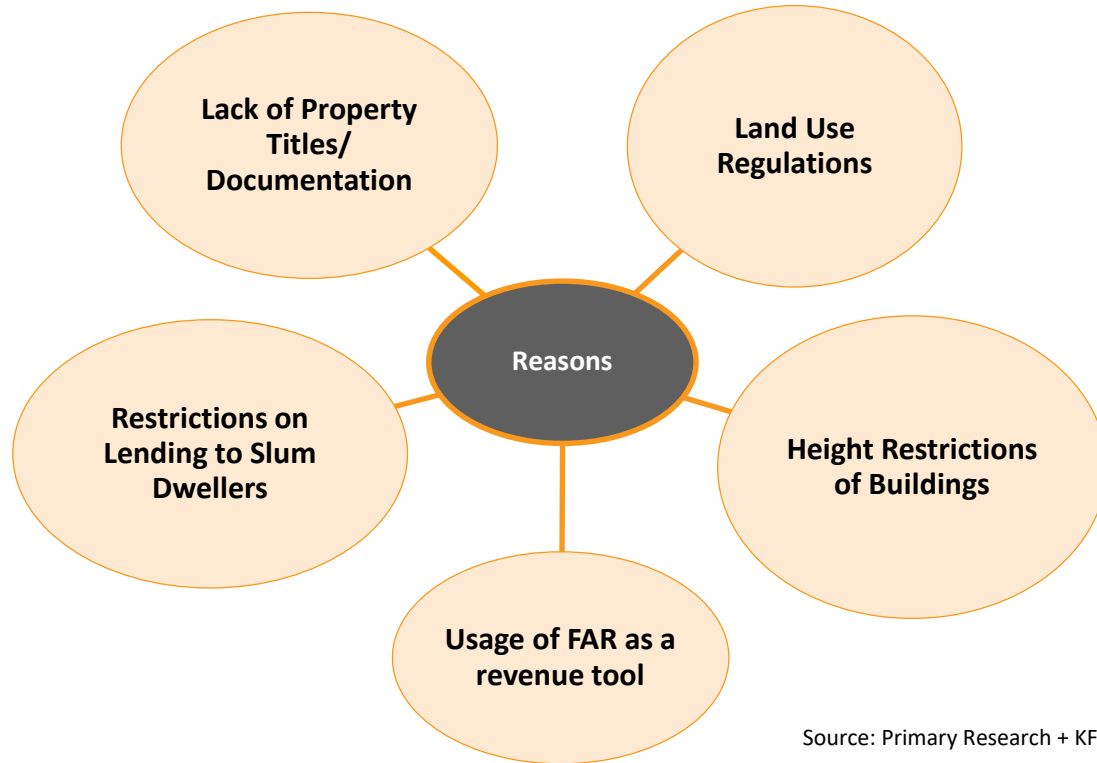


Source: Primary Research + KF Analysis

- In certain states such as M.P, the state government nodal agency for PMAY stay as guarantors to Affordable housing finance companies, thus facilitating loan disbursement to EWS households.
- No defined Central or State policy to promote Rental housing, which is also outside the purview of PMAY Scheme.

Reasons for Shortage of Affordable Housing

Shortage of Affordable Housing due to Policy related Issues Failures



Source: Primary Research + KF Analysis

- No Affordable Housing policy is structured to factor in the size and specific housing needs of the households.
- The Household is less inclined to undertake construction, repairs of their house incase they do not have titles to the property.
- Through a policy measure in 2018, the Government of Odisha has provided land rights to slums dwellers.

Shortage of Affordable Housing in India

Current Housing Gap in India in EWS & LIG Segment (2019)

Total Housing gap prevalent amongst LIG and EWS households in 2019			
	EWS Households	LIG Households	Total
Rural India	4,51,26,205	1,43,84,543	5,95,10,748
Urban India	81,90,700	23,83,462	1,05,74,162

Additional Housing Need in EWS & LIG segment in India (2019-2030)

New Households to be added in the year 2019 -2030			
	EWS Households	LIG Households	Total
Rural	12,70,193	1,41,133	14,11,326
Urban	2,19,72,025	38,77,416	2,58,49,441

Total Housing Need in EWS & LIG segment over next 11 years (2019-2030)

Total Housing Gap in India (2019 to 2030)			
	EWS	LIG	Total
Urban	3,01,62,725	62,60,878	3,64,23,603
Rural	4,63,96,398	1,45,25,676	6,09,22,074

Size of Affordable Housing Finance Market in India

The maximum addressable opportunity for Housing Finance companies to service the EWS and LIG Segment over the next 11 years (2019 -2030)

Average Size of the home loan available by EWS and LIG households while purchasing/ repairing an affordable housing unit.



Total Housing Gap over the next 11 years (2019 to 2030)

Average Size of the home loan in INR		
	EWS	LIG
Rural India	80,000	1,50,000
Urban India	1,20,000	2,50,000

Total Housing Gap in India (2019 to 2030)			
	EWS	LIG	Total
Rural India	4,63,96,398	1,45,25,676	6,09,22,074
Urban India	3,01,62,725	62,60,878	3,64,23,603

Total Housing Finance Market in India (INR Lakhs)

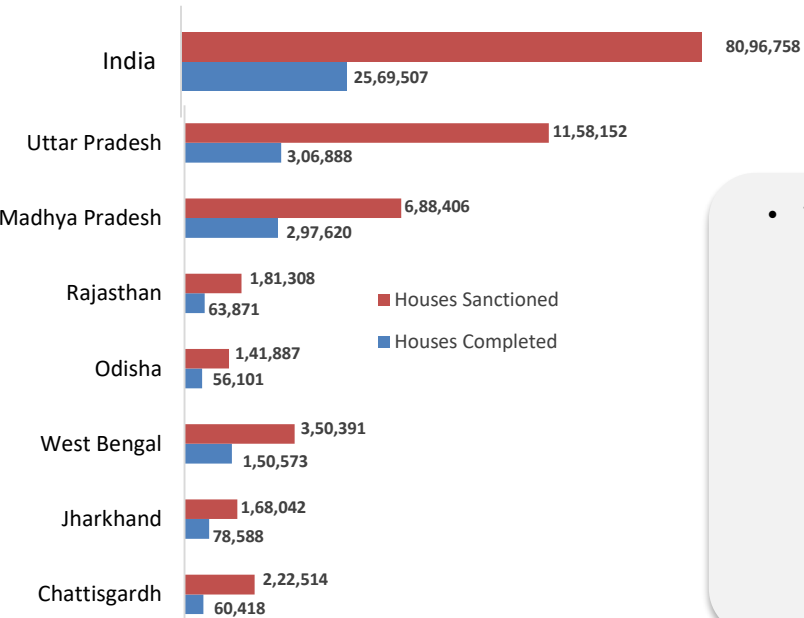
Size of the Housing Finance Market (INR Lakhs)			
	EWS	LIG	Total
Rural India	3,71,17,119	2,17,88,513	5,89,05,632
Urban India	3,61,95,270	1,56,52,195	5,18,47,465
Total Market Size (INR Lakhs)			11,07,53,097

Central Government Policy for Affordable Housing

Pradhan Mantri Awas Yojana

- Started in 2015, the Pradhan Mantri Awas Yojana (PMAY) is an initiative of the Indian Government to provide assistance and facilitate the creation of 1 crore urban and 3 crore rural affordable housing units, especially for EWS and LIG Households.
- All earlier affordable housing schemes have been subsumed under PMAY.

**Sanctioned vs. Completed Houses under PMAY
(As on 27th May 2019)**



Source: Ministry of Housing & Urban Affairs - GoI

Offtake of PMAY Scheme

Percentage of total beneficiaries who have opted for each sub-scheme (Since Inception of the Scheme in 2015 upto November 2018)



Source: Ministry of Housing & Urban Affairs - GoI

- The major policy gaps and other operational issues faced by beneficiaries are as follows
 - The scheme does not look at the size or diversity of requirements of requirements of the beneficiary households. The subsidies should be linked to size of the family.
 - Provision of rental housing for EWS and LIG is not covered under the purview of the scheme.
 - Apart from land within the city, there is no other incentive for developers to participate in slum redevelopment or affordable housing (PPP) projects. In the absence of participation by developers, states such as Odisha, West Bengal, Chhattisgarh are mainly focused on Beneficiary Led construction sub-scheme.
 - Most implementing agencies in states have opined that they face Infrastructural and manpower relate challenges.

Source: Primary Research + KF Analysis

State Government Policies for Affordable Housing

Policy Gaps & Shortcomings – Key Takeaways

Most state level affordable housing policies do not have a robust framework in place to support monitoring and implementation.

State government schemes lack scale in terms of funds and hence have not been able to create a sustainable impact.

State level schemes do not have a holistic approach and are generally focused on a certain beneficiary category.

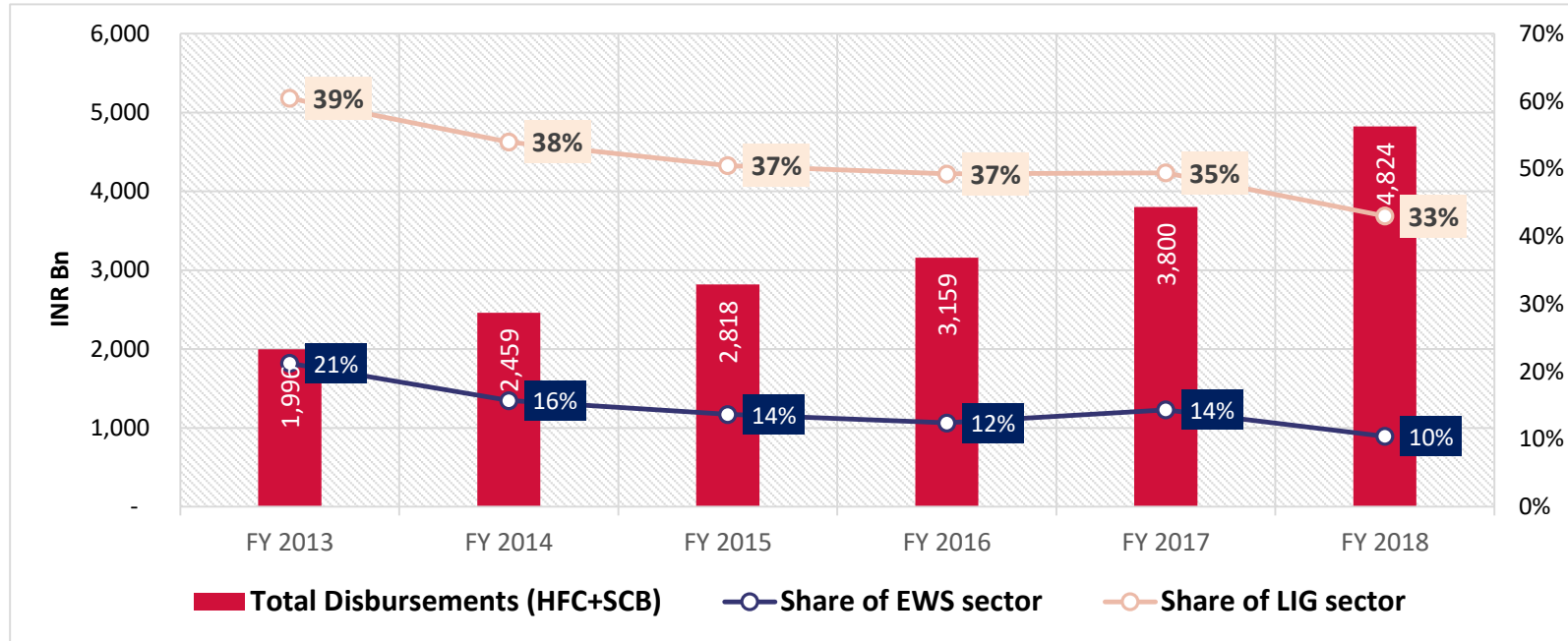
Most state level schemes are focused on a certain region or location within the state.

Due to the introduction of PMAY scheme, the focus of states which have introduced state specific schemes have shifted towards implementation of PMAY Schemes

Source: Primary Research + KF Analysis

Share of loans to EWS & LIG Household are decreasing

Size of the Affordable Housing Finance Market in India



Source: National Housing Bank

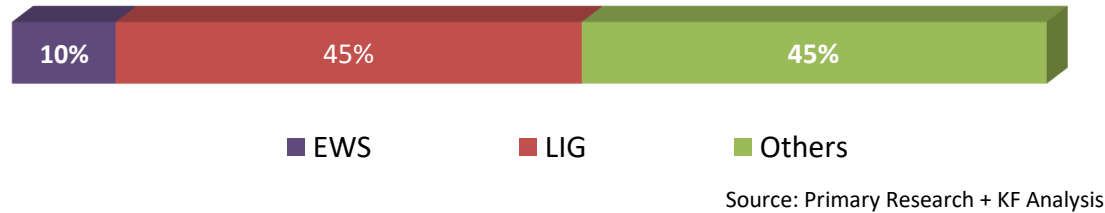
- Although the overall disbursements of Housing loans have increased, the share of small ticket size loans is decreasing in the total disbursement.

Ecosystem of Housing Finance Companies in India

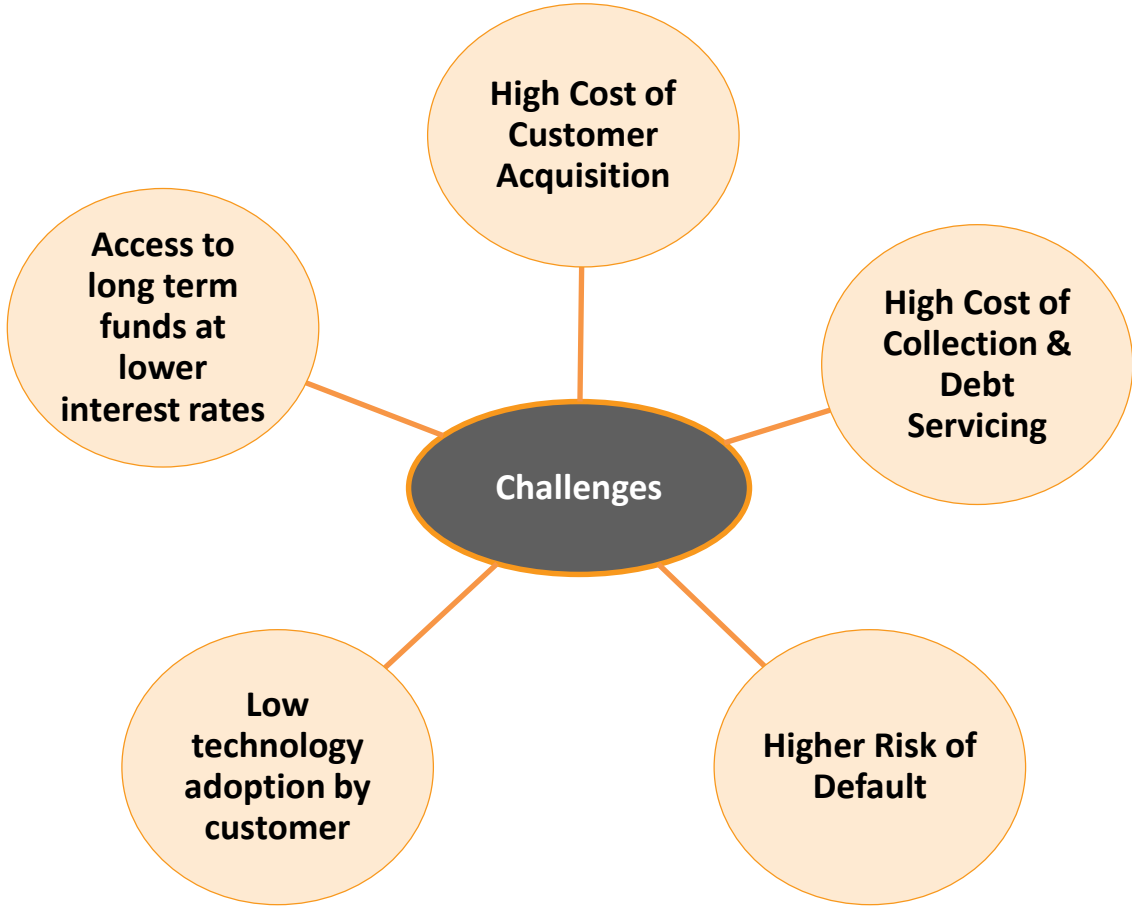
Amongst total Housing loans to EWS and LIG segment, majority is contributed by Affordable Housing Finance Companies



~55 percent of total Housing Loans provided by Affordable Housing Finance companies are provided to EWS & LIG



Challenges faced by Affordable Housing Finance Companies



Source: Primary Research + KF Analysis

Challenges faced by Developers

Lack of Financing of Land Acquisition

- RBI guidelines do not allow banks to provide loans to Developers for land purchases.
- They are forced to seek funds from NBFCs at higher interest rates, thus increasing the input costs.

Adoption of New Technology/ Alternate construction materials

- As most new construction material and technologies are not yet popular, developers use conventional materials and construction methods, thus increasing time and cost of construction.

Availability of Land for Affordable Housing in cities.

- The cost of land is so high that it is impossible to build low cost affordable housing close to central business districts in any city.
- The government should allocate unutilized land for affordable housing within the city.

Availability of Supporting Infrastructure

- Affordable housing projects are feasible on the city periphery due to low land costs.
- However, projects will only be successful if there is good public transport connectivity and other supporting infrastructure such as roads, water supply etc.

Financial Viability of construction

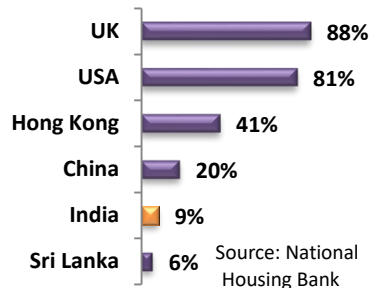
- Affordable housing projects or Slum-Redevelopment is not always a profitable venture
1. Cost of the housing unit is not market driven.
 2. Construction Delays due to procedures and other issues of PPP construction

Source: Primary Research + KF Analysis

Challenges faced by Consumers

Underdeveloped Mortgage Finance Market catering to EWS/LIG segment.

- EWS & LIG household are not the preferred consumer segments.
- Evidently, India has one of the lowest mortgage to GDP ratio as below



Low Awareness of modalities of Government Housing Schemes

- Although Beneficiaries are aware of PMAY and other state schemes, they have limited understanding of
 - Eligibility criteria and whether they qualify.
 - Channels to access the schemes.

High Cost of Finance

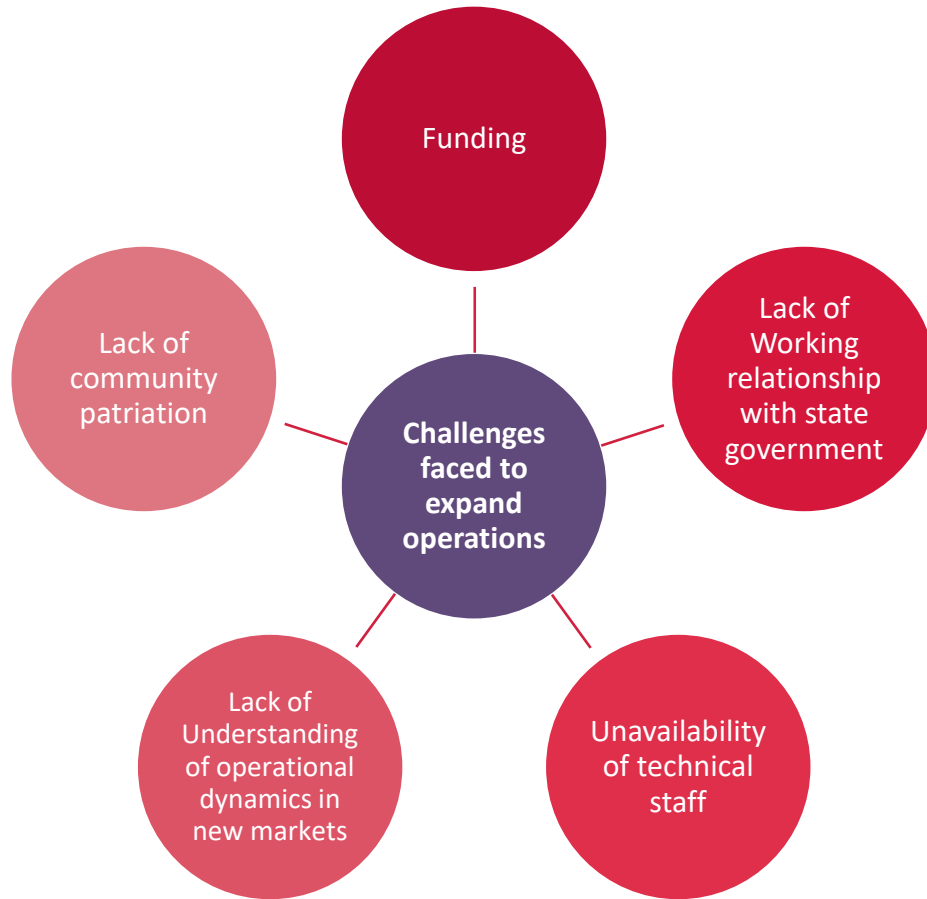
- Housing Finance Companies get input funds from PE at high interest rates.
- Consequently the interest rates levied on consumer loans are high to the tune of 24 percent, deterring consumers from availing loans.

Difficulty to Establish Creditworthiness to Access Finance

- ~80 percent of the EWS & LIG customers are employed in the informal segment.
- In the absence of income proof or not meeting other qualifying criteria to establish creditworthiness, majority of EWS category is denied a housing loan.

Source: Primary Research + KF Analysis

Challenges faced by NGOs to expand their operations



Reasons for Low Presence of NGOs in focus states

- 1 Absence of Big Corporates, hence lesser CSR funds
- 2 Nature of work undertaken by existing agencies (Govt/ Donor Agencies)
- 3 Less Coverage due to scattered nature of work

Source: Primary Research + KF Analysis

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Long term capital to Affordable Housing Finance Companies at lower interest rates

- Due to limited availability of funding from other sources, Affordable Housing Finance companies (AHFC) seek funds from PE funds, who have a shorter investment horizon (4-5 years) and expect high returns on investment.
- Consequently, AHFCs lend at higher interest rate compared to Scheduled Commercial Banks, which makes it difficult for beneficiaries to seek finance.
- DFID should make a portfolio for long term lending with reduced interest rate to cater to Low Cost Affordable Housing Sector.
- Boundary conditions against such lending to housing finance companies may be imposed and these conditions should focus on the followings.

2

Early stage capital to Affordable Housing projects

- Banks/ Financial Institutions fund a project only after all necessary approvals for commencing construction is obtained.
- However, real estate projects have significant initial funding requirements during the stages of land use conversion, zoning, construction approvals, design, shuttering etc., which is approximately 4-5 percent of total project cost.
- DFID can play very important role by creating a fund for providing Early Stage Capital to developers through affordable housing companies.
- Affordable Housing Companies can take over the loan once receive requisite approvals and construction activities start.

3 Formulation of Risk Cover Fund to increase reach of Affordable Housing Finance companies.

- Housing Finance companies refrain to engage and provide loans to informal income segment due to higher risks associated with the beneficiaries. The perceived risks include difficulty in collecting money and related higher cost of operations.
- Apart from having a high risk profile, many beneficiaries cannot access loans due to lack of proper documentation.
- DFID can initiate a risk cover fund and can receive risk premium from Housing Finance companies on individual housing loans sanctioned.
- A part of net credit loss suffered by HFCs in funding informal segment beneficiary or informal properties could be made good out of the fund. Boundary conditions of beneficiary property and credit underwriting rules can be predefined to protect DFID interest.

4 Technical Support to Affordable Housing Finance companies

- Cost of operation for affordable housing finance companies are quite high, especially for smaller companies and estimated to be around 4%-5%.
- To optimize business operations, DFID can play a very important role by helping Affordable Housing finance companies to develop a Standard Operating Procedure (SOP).
- The SOP development can be facilitated by DFID by studying best practices with efficiency/productivity benchmarks which will help affordable housing finance companies in reducing their costs and run business efficiently.

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Support to NGOs for Capacity Building

- NGOs working in the sector are not in a position to expand operations in other states as they find it difficult in (a) in connecting with local Governments (b) demonstrating Governments their work experience in the region (c) don't have familiarity to new market.
- DFID can help NGOs by providing technical support /training for their capacity building efforts. The capacity building efforts should target the following
 - Develop a training module for staff of NGOs to enhance their administrative & technical capabilities.
 - Help NGOs in identifying new markets and engage to provide knowledge of these markets.

Thank
you

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