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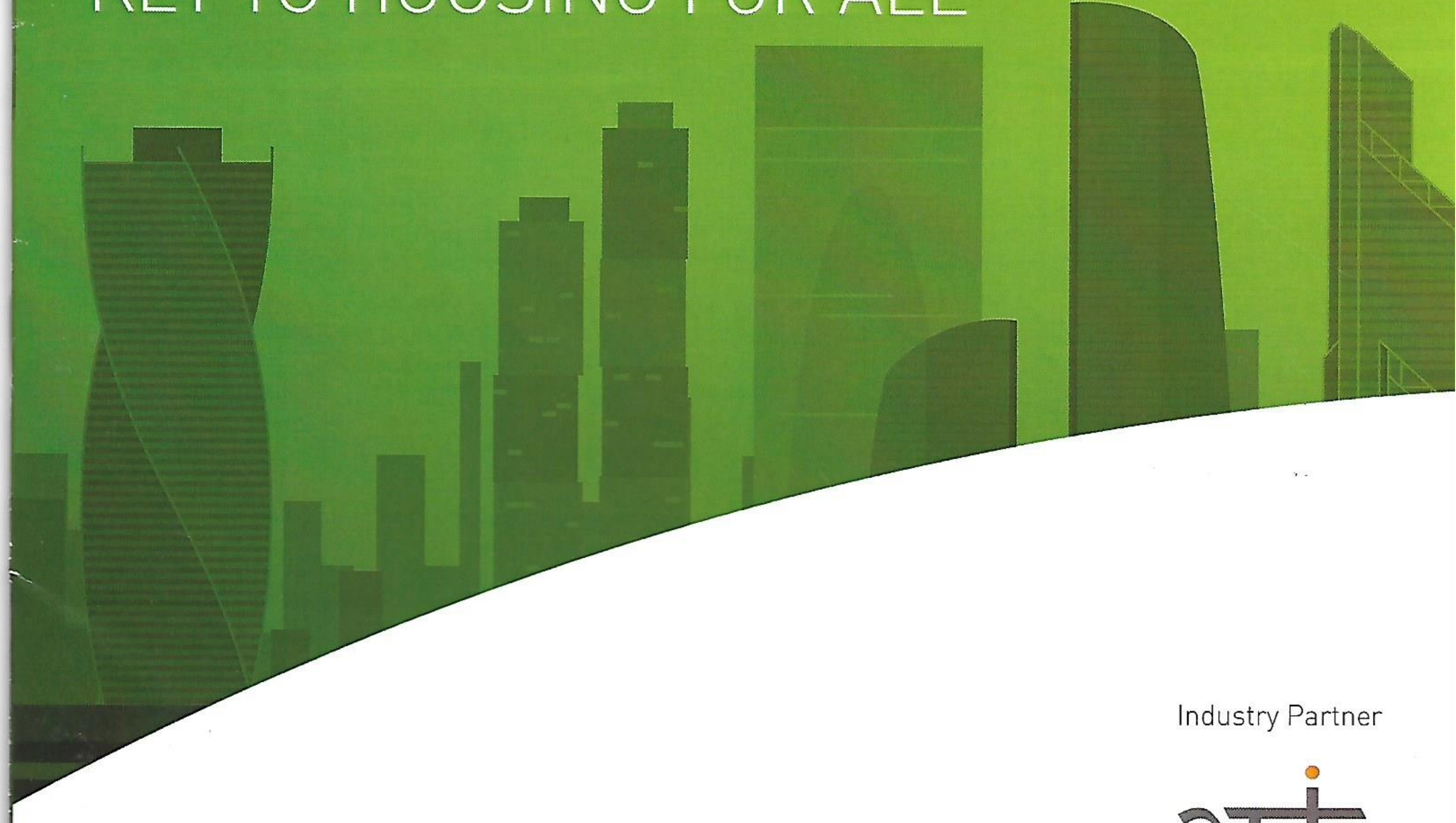
REPORT ON AFFORDABLE HOUSING

KEY TO HOUSING FOR ALL



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Affordable Housing - Key to Housing for All

Over the past few decades, India has been witnessing increasing urbanization and inward migration to cities which has resulted in a significant change in the demographic profile of its urban centres.

The urban population has seen unprecedented increase over the last many years. Compared to 18-20% urban population(78.9 million) in 1961, the share of urban population jumped to 31.2% (377 million) . With almost 70 percent of the incremental employment being created in urban centres, the rate of urbanization is likely to continue which will lead to almost 40% of country's population living in urban centres by 2030.

With most mega cities and medium sized cities witnessing high concentration of urban population, there has been an increasing pressure on housing as well as basic urban infrastructure and services. Increasing concentration of people in urban areas has resulted in an increase in the number of people living in slums and squatter settlements.Further, a rapid increase in land prices and real estate in urban areas, have induced the deprived and weaker sections of society to occupy the marginal lands typified by dilapidated housing stock.

In view of the substantial housing shortage looming large in urban India and a wise gap existing between demand and supply of affordable housing, both in terms of quantity and quality. Notwithstanding this, developments in the affordable housing space have been few due to limited availability of low-cost land, increasing construction costs and low margin levels. This led to considerable demand-supply mismatch in urban India.

As per the latest official statistics, the current urban housing shortage is pegged ar 10 million. By 2030, we will be needing 35 million urban housing, considering the growing population.

Majority of the shortage is in EWS Group (income criteria of up to Rs 3 lakh per annum and unit size od 300 sft carpet area) and Low Income Group (income criteria of Rs 3-6 lakh per annum with unit size of 300-600 sft carpet area). The maximum demand is in houses costing Rs 10-30 lakh.

Considering the unsold inventory of top 6 cities , high demand units(costing Rs 10-30 lakh) are in least supply. Only 13% inventory is available in the price range of below Rs 30 lakh. This called for a robust policy initiative to boost supply of affordable housing in order to meet the shortage of urban dwelling units.

Housing For All & PMAY

In order to meet this challenge, Modi government launched flagship programme of Pradhan Mantri Awas Yojana (PMAY) and Urban and Housing for All mission.

PMAY- Urban launched in June 2015 aims at subsidising the construction of around 1 crore urban houses by providing central assistance to 1 crore eligible families (beneficiaries) over the period FY 15-22. The mission is being implemented through four verticals.

On the supply side, it aims at in-situ redevelopment (ISSR) with participation of private developers. It provides pucca houses to eligible slum dwellers by redevelopment of existing slums on private/public land. Private partners are selected via an open bidding process based on lowest cost of construction per unit. Extra FSI/FAR/TDR is provided to make the project financially viable. A grant of Rs 1 lakh per house is provided by the central government to the planning/ implementing authorities of the states/UTs.

The second component on supply side is affordable housing in partnership with public and private sector. Under this, central assistance of Rs 1.5 lakh per EWS house in projects where at least 250 houses are being constructed and 35% of the houses are for economically weaker section, is provided. the demand side intervention through PMAY- Urban has a component of affordable housing through credit- linked subsidy scheme (CLSS). It focuses on expanding institutional flow of credit by providing interest subsidy of 3-6.5%. subsidy for a maximum tenure of 20 years is credited upfront in the beneficiary account for new construction loans as well as for enhancements.

The second component of demand side intervention is subsidy for individual led house construction/enhancement. It provides for central assistance of Rs 1.5 lakh to eligible EWS families for construction of new houses or enhancement of existing houses. Beneficiaries living in slums, which are not being redeveloped, can be covered under this component if they have a kutcha/semi pucca house. More than half of PMAY-Urban beneficiaries have opted for this scheme.

A beneficiary can take advantage under one component only. While the EWS beneficiaries are eligible for assistance under all four verticals, LIG and MIG categories are eligible only for the CLSS component.

Policy Reforms & Implementing Methodology

The government has initiated a large number of reforms and policy initiatives towards demand and supply side of housing to meet the severe shortage of dwelling units by providing boost to affordable and mid-segment housing where there is maximum shortage. In this context, the government's 'Housing for All by 2022' mission amd PMAY- Urban are noteworthy. The objective is to provide shelter to the urban poor, mainly LIG & EWS category of people.

In order to push demand, the government under PMAY has provided substantial interest subsidy to first time home buyers of EWS, LIG and MIG category.

Interest Subsidy Under PMAY

Under the EWS, for families with annual income up to Rs 3 lakh, there is interest subsidy of 6.5% on home loan of up to 6 lakh for buying home with carpet area up to 30 sq mts For LIG category, families with annual income of Rs 3-6 lakh, there is provision for interest subsidy of 6.5% for loan amount of up to 6 lakh with houses measuring up to 60 sq mt carpet area. Under the MIG-1 category, with families having yearly income of 6-12 lakh, , there is interest subsidy of 4% on a loan amount of Rs 9 lakh for a house measuring up to 160 sq mts. And for MIG-2 category, families with annual income of 12-18 lakh are given interest subsidy of 3% on a home loan of up to Rs 12 lakh for a house measuring up to 200 sq mts. the interest subsidy od maximum 2.67 lakh. In order to ensure that maximum number of beneficiaries can avail this scheme, interest subsidy has been extended to homes costing up to Rs 45 lakh.

Tax Benefits

In order to boost demand for affordable and mid-segment housing , costing up to Rd 45 lakh, in 2019 budget, a provision for substantial home loan interest deduction was made. The budget increased the deduction that can be claimed for interest paid on loans taken for affordable housing, from Rs 2.5 lakh to Rs 3.5 lakh per annum. This deduction which was available on loans taken before end of financial year 2020, has been extended by a year.

For bringing down transaction cost, GST relief has been provided to first time buyers of affordable and mid-segment homes. Initially, for under construction projects, the GST was charged at the rate of 8% for affordable housing (valued up to Rs 45 lakh having carpet area under 90 sq mts in non- metro cities/towns and 60 sq mts in metros) and 12 % for projects other than affordable , with provision to receive ITC But, post April 1, 2019 announcement, the GST rates for under- construction homes were substantially reduced. as per the new rates, under- construction homes now attract 5% GST without ITC. Home buyers of affordable and mid- segment housing as per the prescribed criteria, are charged at a nominal rate of 1%.

With the reduction in GST rates, the cost of ownership has significantly come down, thereby boosting the absorption in affordable segment of housing. Also, with the help of government's consistent policy initiatives, the repo rate has come down to lowest level in a decade and the interest rates have touched a low of about 8%. Further, the RBI, by linking interest rates to the repo rate, has opened doors for faster transmission oh interest rate cuts to home buyers, in turn providing boost to affordable housing.

As a large number of stuck housing projects have badly hit the confidence of home buyers, resulting in low demand and muted sales, the government amended the Insolvency & Bankruptcy Code (IBC) to boost the sagging confidence of home buyers. As per the amended and consolidated IBC, home buyers are classified creditors rather than operational creditors to help them regain their funds from the defaulting builders.

The government's policy initiatives have also been aimed at providing impetus to supply. Providing infrastructure status to affordable housing is one such initiative. The government granted infra status to affordable housing to ensure that the affordable housing projects get the associated benefits such as lower borrowing cost, tax concessions and increased flow of foreign and private capital.

The developers of affordable housing have been provided tax incentive to encourage them to boost supply of affordable housing. A tax holiday has been given in the profit earned by developers engaged in building affordable homes.

As there is a major supply bottleneck with large number of affordable housing projects stalled due to capital crunch, the government has taken a major initiative of creating Rs 25000 crore of Alternative Investment Fund to support last- mile funding of unfinished affordable and mid-segment housing units.

Projects in the affordable and mid-segment category which are non- NPA, non- NCLT and have positive net worth , can get the benefit of funding. For this stress fund, Rs 10000 crore is government's contribution and remaining funding is to be dine by LIC and sovereign funds.

Besides this, many financially sound real estate companies and investors are out to tap this opportunity of providing stress funding to fund- starved developers of stalled projects, with prospects of getting good returns.

PPP Model

For funding affordable housing, the government has evolved PPP options including 6 models of public-private partnership .

Under the DBT model, private builders can design, build and transfer houses built on government land to public authorities which will make payment to builders.

The Mixed Development Cross- Subsidized Housing model pertains to allotment of government land to private developers with cross subsidy from revenues from high end house building orcommercial development.

As part of Annuity Based Subsidized Housing, builders invest against deferred annuity payments by the government. Land allocation to builders is based on unit cost of construction.

Under Annuity cum Capital Grant Based Affordable Housing model, besides annuity payments, builders could be paid a share of project cost as upfront payment.

In Direct Relationship Ownership Housing model, as against other models under which government mediated payments are made to builders and transfer of houses to beneficiaries, promoters will directly deal with buyers and recover costs.

Under the Direct Relationship Rental Housing Model, recovery of the costs by builders is through rental income from the houses built on government lands.

Under these six government land based PPP models, beneficiaries can avail central assistance of Rs1-2.5 lakh per house as provisioned under different components of PMAY - Urban

The policy initiatives taken by the government to push affordable housing are showing positive results.

According to a recent Magicbricks home buyers poll survey, over 75% of India's home buyers now prefer properties within Rs 50 lakh budget. Emerging localities in the price bracket of Rs 4000 psf to Rs 5000 psf are attracting the highest consumer interest. An Anarock Consumer Sentiment Survey has revealed that affordable homes have been the biggest driver for home buying in 2019, with 46% buyers opting for affordable dwelling units and 52% going in for compact 2BHK units. In all 67% buyers opted for 1BHK and 2BHK units.

Technology Boost to Affordable Housing

The residential construction sector requires to replace obsolete methods with new effective technologies. Especially large scale projects need to be executed using modern technologies like pre- fab and Mivan for speedy and cost- effective construction of projects.

Considering that construction costs and timelines are key concerns for developers of affordable housing units, the government has introduced a Technology Sub-Mission under the PMAY-Urban to facilitate the adoption of modern, innovative and green construction technologies and construction material for faster and improved quality of construction. Sixteen new technologies of form work systems, panel systems, steel structural systems and pre-cast concrete construction systems have been earmarked for adoption. Use of the same is expected to lead to cost and time efficiencies, thereby making the construction of affordable homes financially more viable.

Besides, the government's technology initiative, the private sector is also lending its helping land to boost supply of affordable housing and correct the demand- supply mismatch. HDFC capital is seeking to address the demand- Supply gap in affordable housing in India through a combination of technology and financing partnerships, bringing together multiple stake holders including developers, consultants,construction companies, global institutions, venture funds, incubators and accelerators.

In a newly launched initiative- HDFC Affordable Real Estate & Technology Programme (HeART), HDFC Capital Advisiors will provide a platform to real estate tech companies with innovative products aimed at creating efficencies and lowering costs in each part of the development cycle of real estate projects.

HDFC's endeavour is to act as an enabler to the growth of affordable housing in the country, HeART will support businesses which are innovating and building technology solutions to enhance the supply of affordable housing.

Technology will play a significant role in the development of eco system for affordable housing. All processes in the development of a house including land, approval, planning and design, construction, project management, sales and facility management are likely to undergo significant changes due to disruption in the near term. HeART will promote collaboration between tech companies and real estate sector and thereby create value for he entire affordable housing chain.

Making use of modern technologies, leading affordable housing developers like Signature Global are now able to deliver homes, months ahead of the government mandated delivery timeline.

High Quality Affordable Lifestyle Homes

With the entry of reputed big brands like Godrej, Tata , Mahindra Lifespaces, Puravankara, Shapoorji Pallonji among others, the quality of affordable housing has significantly gone up. In fact with leasing players like Signature Global, hiring renowned architects like Hafeez Contractor for their affordable housing projects, not only the homes are efficient but they also have lifestyle quotient which is luring even millennials who are lifestyle conscious.

As a result of this traditionally high end market like Gurgaon has turned affordable with developers providing enough supply of lifestyle affordable and mid segment housing.This is clearly evident from the rising share affordable homes in the overall dales and new launches in Gurgaon. According to a recent PropTiger report, 74% homes sold in Gurgaon during quarter ended December 2019 were units priced up to Rs 45 lakh while 79% of the over all launches were units priced up to Rs 25 lakh. In Noida, the affordable homes contributed nearly 535 to the over all sales during October-December 2019 quarter. At the national level, there has been 14% annual decline in the inventory of unsold stock of affordable housing.

Investors Fancy Affordable Housing

Thanks to a series of reforms like RERA, IBC, GST, furthering professionalism, ease of doing businessand transparency and key policy initiatives promoting affordable housing, both domestic and global private equity players have been investing substantial amount of money into Indian real estate especially affordable housing . In 2019 Indian real estate attracted $ 6.2 billion worth of PE inflows with NCR & MMR accounting for $ 2.7 billion of investment. in 2020, according to Colliers,PE investment is likely to rise by 5% to $ 6.5 billion (Rs 46000 crore).According to global property consultancy Savills, property market has seen institutional flows of funds ai 10 year high with Asian funds like GIC , Ascendas-

Singbridge, Temasek increasing their direct investments. Institutional investors have picked India's real estate sector as one of their strategic investment destination and realty market will see more global fund flows over next 3-5 years.

PE funds' growing interest is also attributed to government's incentivised policies to boost affordable housing, like PMAY and flagship mission of Housing for All. Signature Global, a leading player in affordable housing has caught the fancy of global PE funds. KKR has backed affordable housing projects of Signature Global , committing Rs 200 crore across portfolio of low- cost housing projects being developed under the Affordable Housing scheme of Haryana government. KKR has exposure to Indian real estate market through non- banking finance arm, set up under Singapore's sovereign wealth fund- GIC as investor.

HDFC Capital Advisors , the largest realty PE fund in India focused in affordable and mid- segment housing ,has invested $1 billion over past 2-3 years with leading developers operating in this space across India.This $ 1 billion platform will invest in country's top 15 cities. This platform includes Abu Dhabi's Sovereign Wealth Fund- Abu Dhabi Investment Authority (ADIA) and National Investment & Infrastructure Fund (NIIF). In February 2019, HDFC Capital Advisors and Prestige Group had announced Rs 2500 crore platform to invest in affordable housing projects. HDFC had also forged investment platforms with Mahindra Lifespaces, ATS Infrastructure , Arvind Smart Spaces and Tribeca. These are jvs wherein the partner brings in capital and the developer constructs project. These tie- ups are prompted by growing sale velocity of affordable homes.housing,

Investors are not just targeting developers of affordable housing but also mortgage lending companies operating in affordable housing space. PNB Housing last year raised $ 100 million from International Finance Corporation for providing small and medium ticket housing loan to promote affordable housing. Last year too, global fund Blackstone acquired India's largest independent affordable housing finance company- Aadhar.

New entrants in mortgage lending space are focusing on providing small home loan to customers of affordable housing in tier 3-4 cities. These companies are providing loans up to Rs 45 lakh. This segment has good risk to reward ratio which is attracting companies to enter this space. More ans more housing finance companies are aligning their businesses with PMAY, aimed at providing shelter to all by promoting affordable housing., especially as affordable housing finance is set to be a Rs 6 trillion opportunity by 2022, as per India Ratings & Research Report.

Progress of PMAY (U) & other Policy Initiatives

Post the launch of PMAY scheme in June 2015, continous emphasis has been provided to affordable housing under this. As of January 2020, the total funds sanctioned by the Centre towards PMAY-U amount to Rs 1.63 Lakh Crore. However only Rs 0.64 crore - 39% has been released of which Rs 0.28 Lakh Crore has been through budgetary allocations. The actual budgetary funds deployed have been close to the budgeted funds set aside on a cumulative basis not withstanding yearly fluctuations in the same due to varying progress levels. The balance funding is to be met through non-budgetary sources. The Cabinet had approved the creation of Rs 60,000 crore National Urban Housing Fund to finance the same . In FY20, funds to the tune of Rs 25000 crore were approved through such non- budgetary sources.

While the number of houses sanctioned under the scheme stand at around Rs 1 crore under PMAY (U) , actual completions are to the tune of 31% of sanctioned houses.

All the policy initiatives taken by the government are still short of delivering desired results in terms of boosting demand /sale of affordable housing, According to a latest PropTiger report, 50% of unsold housing stock in 9 major residential markets is in the affordable category. Out of the total unsold stock of 7.75 lakh units at the end of 2019, close to 3.90 lakh units were affordable houses.

Outlook & Future Agenda

According to a report by ICRA, a leading rating agency, despite the slow pace of progress on the PMAY-U, this mission is clearly addressing the core issue of the national housing shortage in a systematic manner. With the government push for affordable housing through provision of land , subsides and incentives, private sector participation in the lower ticket size segment has been ramping up at a considerable pace, resulting in narrowing down of the existing demand- supply gap. Nearly 7.95 lakhs housing units would be delivered in India's nine major property markets between October 2019 and December 2020. Moreover, technical innovations have improved operational efficiency in terms of completion time and cost, bringing in financial viability in the development of affordable housing.

Developers have been realigning their strategies to meet the market requirements and have been focusing on keeping average ticket sizes affordable. Sales in the sub 50 lakh segment have in fact witnessed a considerable momentum and in new of the government's policy incentives for development and offtake of affordable housing units, positive trends in both demand and supply for this segment are expected to continue, going forward.

Having said this , in order to meet the goal of housing for all , affordable housing requires further push and this impetus can be provided through a number of policy measures. There should be release of idle government land to address issue of land availability especially near urban centres besides development of social infrastructure and connectivity for peripheral land parcels . The affordable housing should have fully developed physical infrastructure amenities like public transport, sewage treatment lines and water and power supplies . The clearance and approval process needs to be expedited to check cost escalation and encourage private sector participation. The infrastructure status granted to affordable housing should be implemented in letter and spirit to facilitate easy availability of project finance of reasonable rates. Moreover, keeping is new the liquidity crisis faced by the real estate sector, one year project loan restructuring should be done to boost affordable housing supply.

Haryana Affordable Housing Policy

Affordable Housing Policy (AHP) of Haryana is a vast improvement over normal housing policy.

Under this policy 75 licences have been awarded aggregating 435 acres. In order to provide boost to affordable housing, FAR of 2.25X (extended up to 2.37 X on compliance of green building norms) against FAR of 1.75 X for standard housing policy.

As a consequence of this, developers can construct average of 150 units per acre against just 50 units under normal housing policy.There is higher ground coverage of 50% as against 35% in normal housing.

Increased FAR and density norms enable developers to make small unit size developments which are in much demand. Against the average unit size of 1700 sf on saleable area under standard policy, developers under affordable housing policy can build units of 500 sft sizes in carpet area basis.

What has come as a big relief to home buyers is the affordable pricing of units under AHP.There is a government mandated fixed price if Rs 4000 per sq ft on carpet area basis for highest potential towns of Gurgaon, faridabad and Panchkula and Rs 3600 per sq ft for other high and medium potential towns. the price for remaining towns is Rs 3600 per sq ft.On the other hand the unit price under standard housing policy is governed by market dynamics and is in the range of Rs 5000-15000 per sq ft. As such the average apartment value under affordable housing policy is Rs 13-26 lakh whereas under standard policy, it is upwards of Rs 70 lakh.

The home price under AHP is all inclusive with no EDC/IDC charges, parking fee or club membership whereas in standard housing, EDC & IDC charges of Rs 400 per sq ft are applicable, besides parking charges and club membership. what more, as part of AHP, there is easy time-linked payment plan. the project needs to be delivered within government mandated timeline of 4 years under AHP.

Haryana government has now proposed to further tone up its affordable housing policy.In this year's budget proposal, a new department has been creates by the name- Home For Everyone. this department will be specifically entrusted with the responsibility to provide housing to weaker sections of society. This will ensure transparency and make the programmer more effective and result- oriented with better monitoring.

Signature Global- Biggest Brand in Affordable Housing

Signature Global in a short span of over 5 years , has emerged as the largest developer under the Haryana Affordable Housing Policy. As per recent PropEquity report, Signature Global has 20% market share by projects launched. Signature Global had 15 projects(now 16) out of total of 75 projects as per July 2019 PropEquity report, As many as 14 developers have only one project.

Signature Global has 24% market share by units launched. Average units per developer in Gurgaon is 740 against Signature global's 1350 units.

Signature Global has achieved enviable scale at national level with 19 projects to its credit in just 5 years against the oldest player Ashiana (2009) having 16 projects in last 15 years. Tata Value Homes has 14 projects in the last 12 years. Provident by Puravankara though matches Signature Global's record of 17 projects, yet it has taken 11 years to achieve this feat as against 5 years taken by Signature Global.

At the national level, Signature Global , as per RICS- Knight Frank survey, has emerged as the number one brand in affordable housing, beating biggies like Tata, Godrej, Puravankara, Mahindra Lifespaces.