

AFFORDABLE HOUSING FOR ALL

There are three basic needs of human being, i.e. food, clothing and shelter. Right from the mankind evolved, he has been struggling to fulfill these needs. The life of a human being cannot be imagined without safe, secure and comfortable shelter. The need for shelter is one of the fundamental requirements, which merits priority attention.

A House is not just a place to live – rather it is an asset. Owning a house can also have other benefits. For example – owning a house can be used as collateral to secure loan, financial hedge against future housing cost, and rent-free accommodation in post retirement. **Housing**, besides being a very basic requirement, also holds the **key to accelerate the pace of development**. Investments in housing like any other industry, has a multiplier effect on income and employment. It is estimated that overall employment generation in the economy due to additional investment in the housing/construction is eight times the direct employment (IIM-Ahmedabad Study, 2000).

Housing also provides opportunities for home-based economic activities. At the same time, adequate housing also decides the health status of occupants. Therefore, on account of health and income considerations, housing is a very important tool to alleviate poverty and generate employment.

Need for a National Housing and Habitat Policy emerges from the growing requirements of shelter and related infrastructure. These requirements are growing in the context of rapid pace of urbanization, increasing migration from rural to urban centres, mis-match between demand and supply of sites & services at affordable cost.

Housing Shortage

Census data, NSSO estimates, reports of Working Groups setup by the Planning Commission, Five Year Plan Documents, National Urban Housing and Habitat Policy 2007, Task Force on Affordable Housing for All; have amply depicted the housing shortage in India. At the end of 10th Five Year Plan, the housing shortage was estimated at 24.7 million; further 99% of this shortage pertains to EWS and LIG segments. During the Eleventh Five Year Plan the total housing requirement (including backlog) is estimated at 26.53 million. Apart from the absolute level of housing shortage, there are also qualitative dimensions of housing shortage – like lack of basic amenities, poor quality of houses (dilapidated/not fit for habitation) and overcrowding etc.

As per census (2001) data, about 15% of India's urban population lives in slums. Further, as per the estimates of the 58th Round of NSSO, 39% of households were living in slum settlements for more than 20 years. Further, the 61st Round of NSSO shows that while there has been a decline

of 18 million persons in the total number of the poor in India, the number of urban poor has risen by 4.4 million persons, between 1993-94 to 2004-05.

Urbanization and development go together and rapid pace of development leads to rapid growth of urban sector. Urban population of India is likely to grow from 285.3 million in 2001 (Census 2001) to 533 million in 2025. As per the projections based on historical growth pattern (1901 – 2001), nearly 36% of India's population is likely to be urbanized by 2025.

Over a billion people around the world live in appalling conditions. In India alone, about 100 million people live in slums and slum-like conditions without adequate basic facilities. These numbers are expected to touch 200 million by 2020. With this rapid urbanisation, one of the biggest challenges will be providing affordable housing to city dwellers, especially the poor.

The **decadal growth rate of urban population** in India is significantly higher than rural population, being 23.9 & 20.0 during 1981 – 1991 and 21.4 & 18.0 during 1991-2001 respectively.

The Concept of Affordable Housing

Affordable housing is a term used to describes dwelling units whose total housing costs are deemed affordable to a group of people within a specified income range. In the United State and Canada, the commonly accepted guideline for housing affordability is a housing cost that does not exceed 30% of a household's gross income. A common measure of community-wide affordability is the number of homes that a household with a certain percentage of median income can afford.

In India, the discussion on affordable housing has till now revolved around housing for EWS and LIG categories. However, it has been increasingly observed that even MIG are not able to afford housing for them. For example the affordability ratio, defined as ratio of median house prices to the median income for India is 7.7, putting it in the category of severely unaffordable (affordability ratio <3 indicates affordable, between 3 to 4 indicates moderately affordable and >4 indicates severely unaffordable).

The NHUP has not defined affordability. The Government, therefore, set up a Task Force under the chairmanship of Shri Deepak Parekh to look into various aspects of affordable housing, including its definition. The Task Force has recognised that any attempt to fix a definition of affordable housing for a country like India, using the concept of "one-size-fits-all" is counterproductive. The Task Force has, therefore, suggested different parameters on affordable housing for EWS/LIG and MIG categories. For EWS /LIG categories of households, affordable housing is defined as a unit with carpet area between 300 and 600 sq. ft., with (i) the cost not exceeding four times the household gross income (ii) EMI/rent not exceeding 30% of the household's gross monthly income. Whereas for the MIG category affordable housing is considered as a unit with carpet area not exceeding 1200 sq. ft., with (i) the cost not exceeding five times the household gross income (ii) EMI/rent not exceeding 40% of the household's gross monthly income. The Task Force has recommended to the Government to undertake a separate exercise for estimating number of households in each of the categories and those needing affordable housing.

The problem

The provision of affordable housing for all requires maintaining a delicate balance between cost of the housing vis a vis basic standards of the housing. Obviously high standards will lead to higher cost of the housing and lesser units in face of the limited budgetary resources – on supply side. On the other hand it also leads to lower willingness to pay on demand side. Therefore, the first challenge is to maintain reasonable standard of the housing at low/affordable cost so as to improve the affordability. Another challenge relates to countering the incentives for high/middle income group capture, through market forces or otherwise. Therefore, identification/selection of beneficiaries is crucial for successful implementation of any affordable housing programme.

The low-income market isn't serviced for three reasons: **one**, the inability to assess credit risk: no pay slips, no tax returns, uncertain cash flows; **two**, lower profit margins due to smaller transaction size and fixed costs; and **three**, lack of clarity on recoveries, especially given the uncertainty over land ownership.

A recent study on price structure of housing properties which was commissioned by the National Housing Bank to National Council of applied economic research has found that approximately 25 per cent of housing cost is attributable to various Local, State and Central Duties and Levies and Direct & Indirect taxes. By any measure, this tax component is prohibitive and acts as a significant barrier for parties interested in developing large scale housing projects for the cost conscious urbanized mass market.

Various Initiatives towards achieving the Goal of Affordable Housing for All

Jawaharlal Nehru National Urban Renewal Mission

JNNURM is a flagship programme of the Central Government in concert with the State Government and urban local bodies. It supports 63 cities across the country in terms of perspective plans called City Development Plans (CDPs) for specifying infrastructural gaps relating to water, sanitation, sewerage, drainage and roads on the one hand and deficiencies in housing and basic services on the other hand.

The JNNURM seeks to fill up the gaps in infrastructure and deficiencies in housing and basic services through appropriate investments. JNNURM seeks to encourage private sector participation with the Government providing viability gap funding through the Mission for large projects where the open tendering process shows specific shortage in economic viability.

There is a provision of Rs. 18,000 crores (Rs. 180 billion) of additional central assistance for upgradation urban slums with EWS and LIG housing, tenurial security and basic civic infrastructure and services. Under JNNURM government has sanctioned projects for construction of 1.2 million houses.

National Urban Housing and Habitat Policy (NUHHP) - 2007

The Government of India announced National Urban Housing and Habitat Policy in 2007. The policy seeks to promote sustainable development of habitat in the country with a view to insuring equitable supply of land, shelter and services at affordable prices to all sections of the society. Given the magnitude of housing shortage and budgetary constraints of both the Central and State Governments, the policy seeks to promote various types of public- private partnerships for realizing the goal of Affordable Housing for All.

The core focus of this Policy is provision of “Affordable Housing For All” with special emphasis on vulnerable sections of society such as Scheduled Castes/Scheduled Tribes, Backward Classes, Minorities and the urban poor.

The Policy takes note of the substantive gap between demand and supply both for housing and basic services. The Policy seeks to assist the poorest of poor who cannot afford to pay the entire price of a house by providing them access to reasonably good housing on rental and ownership basis with suitable subsidization.

This Policy aims at complementing poverty alleviation and employment generation programmes for achieving the overall objective of “Affordable Housing For All” with sustainable development.

The policy seeks to create adequate housing stock both on rental and ownership basis with special emphasis on improving the affordability of the vulnerable and economically weaker sections of society through appropriate capital or interest subsidies.

It emphasises the need using technology for modernizing the housing sector for enhancing energy and cost efficiency, productivity and quality.

Innovative spatial incentives like relaxation of Floor Area Ratio (FAR) for ensuring that 20-25 % of the FAR are reserved for EWS / LIG and issuance of Transferable Development Rights (TDR) for clearance of transport bottlenecks in the inner-city areas and availability of additional FAR in Outer Zones will be promoted with a view to meeting the housing shortage amongst EWS/LIG.

The Policy also suggest for a careful review of authorized Floor Area Ratio (FAR) in line with international practices for allowing more efficient use of scarce urban land by construction of high rise buildings has also been suggested.

High Level Task Force on Affordable Housing for All

The High Level Task Force on Affordable Housing for All has observed that notwithstanding the positive role of housing sector, housing and urban development continued to be relegated to a peripheral place in the country’s development profile. While the Task Force recognizes that India has its own developmental priorities, not to have housing, in particular, affordable housing as

one of the foremost priorities is tantamount to demonstrating a secant regard to the basic living conditions of country's urban poor. According, to the Task Force, housing is an anchor which ignites the spirit of human endeavour, therefore it is critical to recognize housing investment as a basic and fundamental building block of economic activity. Therefore, one of the primary recommendations of the Task Force is to put "affordable housing" at the center of public policy. The Task Force estimates that alleviating the urban housing shortage could potentially raise the rate of growth of GDP by at least 1-1.5%. Further, the Task Force has stressed that delay in addressing the affordable housing problem would seriously affect India's economic growth and poverty reduction strategies.

Land for Affordable Housing

Clearly affordable housing for all when 99% of the housing shortage is in the category of EWS and LIG would become feasible target only if land is made available, for affordable housing, at pre-determined prices or free of cost. In such a situation, market based solutions will continue to deny shelter to the population categorized by the census as falling below the middle income levels.

The land use and availability for housing faces several bottlenecks. The first set of bottlenecks is represented by regulatory constraints, including administrative approvals that are prescribed for real estate transactions under various legislations, byelaws and procedures. Typically in India the time take from identification land to project conception is around two years. Another set of constraints arises from the fact that the level of infrastructure in semi-urban and rural areas is very poor as compared the levels within the cities. Such a mismatch discourages residential developments in semi-urban areas.

Another constraint is related to the system of land titles in India. The absence of a guaranteed land title system in India has far-reaching implications. Current land ownership records only provide "presumptive title": the sale deed and the tax-paid receipt. All developed countries guarantee titles; but most developing countries don't.

To overcome the above constrains, there is a need to review and reform the regulatory framework governing land transactions including review of procedural regulations. Similarly the town planning mechanism also needs a relook so as to permit optimum use of land where infrastructure permits higher density of population. Further, there is a need for development of tier II and tier III cities, construction of integrated township and counter magnet areas.

Another possible strategy to provide additional supply of land would be to discourage the holding of land by private and government entities. Measures like vacant land tax and a system of taxation that captures capital gains such that investment in land yields returns comparable to bank rates to discourage hoarding and banking of land for speculative purposes.

Reservation of land or dwelling space is a mean for ensuring equity on urban land use. Impact fees can also be collected instead of for every development sanctioned in a new area of development or where additional FAR is allowed. This would have the same effect provided the amount accrued is reserved in an urban shelter fund and used to by land and construct EWS

housing. Examples of such innovative ways of land reservations are available from ULBs in states like Gujarat, Maharashtra, Andhra Pradesh and Madhya Pradesh.

The State Government should ensure that in the area allowed for development a portion is earmarked for EWS/LIG housing, which the builder will develop and handover the government for allocation. This way, land cost is discounted for the poor while the builders recover their cost of construction. The rest of the area would be left to the builder to develop housing for middle and high income groups or commercial development to be sold on market rate.

In situ redevelopment of slums could also happen within the city limits. Slums covering a large area could give way to vertical development of quality space for slum dwellers. The additional space would be allowed to the developers for commercial projects. This has been implemented successfully in Mumbai.

State Governments have been promoting industrial estates around and in the hinterland of cities for at least three decades, and as land values grow higher, it is a rare that industrial estate plan land use for other than factory sites and parking. Accordingly, Governments may consider that industrial estates should only be planned as part of integrated townships, so that land, infrastructure and resources are provided in commensurate proportion, or at least consider amending regulations so that land and amenities for labour and workers housing co-operatives is made a part of the development plan for each new employment hub.

Efforts by State Governments

Several states have started programmes within the state sector for social housing, some of which are as ambitious as the JNNURM. Andhra Pradesh, for example, has adopted a policy of housing as a right; Uttar Pradesh has a massive programme for urban housing; and Maharashtra has set itself a target of 20 lakh houses within this plan period. Further, in line with the NUHHP-2007, several State governments have announced/finalized their respective State Housing Policies. In this endeavor, NHB has been proactively supporting the efforts of the State governments.

Need for Partnership with Multiple Stakeholders

Clearly, the burden of affordable housing has been born solely on budgetary sources. Growth of urban population at the current rate of 2.7% per annum would add considerably to the cost of providing for this need. Accordingly, a successful strategy for affordable housing while leaning heavily on government for budgetary support would need to depend on leveraging other sources of financing for achieving the goal of affordable housing for all.

Seeing finances as a key factor, the NUHHP 2007 clearly states that public sector efforts will not suffice in fulfilling the housing demand. It therefore, calls for a strategy of partnership with multiple stake holders like the cooperative sector, the services and institutional organizations and parastatals, and a larger flow of funds flow of funds by especially or innovatively designed fiscal instruments that leverage available government resources to better effect.

Specifically, it seeks action to encourage beneficiary led housing. It requires that a suitable percentage of land developed by the public sector be provided at institutional rates to

organizations like the Cooperative Group Housing Societies, Employee Welfare Organizations which operate on a no-profit-no-loss basis.

Interest Subsidy Scheme for Housing for the Urban Poor (ISHUP)

ISHUP is aimed at providing cheap loans to the urban poor who have a plot but insufficient funds for constructing a pucca house for themselves. The scheme gives them an interest subsidy of 5% per annum for loans upto Rs. 1 lakh for EWS (per month housing hold income below Rs. 3300/-) and LIG (per month house hold income between Rs. 3300/- to Rs. 7300/-) Under this scheme, interest subsidy of Rs. 1100 crores allocated to the scheme is expected to leverage institutional finance of Rs. 3870 crores. The size of the scheme has been kept to a pilot for the 11th plan, partly because of the limitation of funds, and partly with a view to evaluate demand for this package.

Stimulus Measures

The economic slowdown has brought to the fore issues related to affordable housing. Therefore, the issue of affordable housing for all, gains urgency from the current economic slowdown and need to provide a stimulus to the economy. In view of strong multiplier effect of investment in housing on income and employment generation, a concerted boost to housing sector at this juncture would have an immediate benefit for the economy.

Government has announced stimulus packages and housing constructions sectors has found paramount place in both the packages. As a part of recent economic stimulus packages, beneficiary led housing is sought to be promoted by keeping home loans cheaper than other bank loans. The RBI has announced a package for borrowers in two categories – (i) up to Rs. 5 lakhs and (ii) Rs. 5 lakhs to 20 lakhs. In line with RBI initiatives, public sector banks have designed concessional loans for these two categories. Further, Loans granted by Banks to Housing Finance Companies (HFCs) for on-lending to individuals for purchase / construction of dwelling units may be classified under priority sector, provided the housing loans granted by HFCs do not exceed Rs. 20 lakh per dwelling unit per family. Further, a refinance facility has been provided to the National Housing Bank of an amount of Rs. 4,000 crore

Besides, the government also relaxed norms on external commercial borrowing (ECB) for dealing with the problem of liquidity crunch faced by the developer community. To facilitate access to funds for the housing sector, the 'development of integrated township' would be permitted as an eligible end-use of ECB, under the approval route of RBI.

2010 -A year of Affordable Housing

National Conference of Ministers of the State Governments dealing with housing, urban development and municipal administration, held on 20th January 2009 adopted several recommendations and one of which was to declare 2010-A year of affordable housing. Housing is a state subject and the Central Government has sensitized all the states to leverage their potentials towards two main themes of 'Affordable Housing' and Slum re-development.

National Shelter Fund

The concept of a **National Shelter Fund** continues to find place in all prominent housing policy related document/reports. NUHHP 2007 has called for action for creation of National Shelter Fund, as under:

“The feasibility of National Shelter Fund to be set up under the control of the National Housing Bank for providing subsidy support to EWS/LIG housing would be examined in consultation with Ministry of Finance. The NHB will act as refinance institution for the housing finance.”

The High Level Task Force on Affordable for All also has recommended for creation of a National Shelter Fund for financing the affordable housing. This recommendation is reproduced as under:

“A cess of 0.5% on all central government taxes to be credited into a dedicated Shelter Fund, to be managed by the National Housing Bank. The Task Force would recommend reinforcement of such a Fund with budgetary support of equal amount, so as to make a long term impact on Affordable Housing.”

Keeping in view the importance of housing and shelter in life of every human being as well as the state of housing deficit in the India as reflected by the prevailing situation of housing shortage (99% of which pertains to EWS and LIG), clearly depicts the need for creating a National Shelter Fund. Further, in the context of changing role of public housing agencies, there is a need to have an innovative, effective and sustainable financial mechanism for realizing the goal of affordable housing for all. Besides, Housing Trust Fund or Shelter Funds are in operation in various developed and developing countries for addressing the need of affordable housing. Therefore, there is a need to create a National Shelter Fund in India as recommended by the High Level Task Force on affordable housing for all so as to make an effective intervention for providing affordable housing to EWS and LIG.

Some Suggestions

- Most of the countries have designed several policies to address the problem of inadequate supplies of affordable housing. Sophisticated secondary market mechanisms, inclusionary zoning, and land banking are three prominent tools. There are also tax and fiscal concessions that result in reducing the cost of mortgages and the cost of borrowing. Similar measures can be recommended of our country also.
- At the National level, initiatives to address provision of affordable housing could effectively reduce the overall incident of housing shortage. Nevertheless, diverse local conditions suggest that such effort should be initiated by the Central Government in partnership with the State Governments and urban local bodies, so as to ensure that the efforts are customized as per local needs. Furthermore, such initiatives are required to focus on both the supply said and demand side approaches, namely, increasing the supply of affordable housing as well as addressing the constraints which households face in obtaining suitable housing. The initiative targeting supply of affordable housing are

required to be driven from the bottom up that is local level design, often with central and state level resources; by involving the targeted beneficiaries and local communities by utilizing the inherent strengths and assets already existing within the community. On the demand side there is need to enhance the affordability through provision of basic service like, health care, education, training, and gainful employment. In addition there is need to improve access and affordability of housing finance.

- Although, during last decade of so, there has been considerable progress in delivery of housing finance. But only middle and upper income households have access to such finance, while the poor are generally excluded. Furthermore, the majority of urban poor households can only afford to build incrementally in stages, as and when financial resources become available. Accordingly, there is a need to encourage microfinance institutions for catering to customized need relating to housing finance to economically weaker section, low income group and the poor. Guarantee schemes can, by providing credit enhancement, go far in broadening the appeal of microfinance institutions to lenders.
- There are a range of affordable home ownership options, including shared ownership (where a tenant rents part share in the property from a social landlord, and owns the remainder). Sweat equity i.e. contribution of labour by the owner in construction (including in production of construction material) has been recognized as an effective measure for improving the affordability of home, particularly, by EWS/LIG households. The term can also be used to describe the value added to real estate by owners who make improvements by their own toil.
- There is also a need for stocks of publicly created, innovatively managed rental housing. Such housing pockets could be developed by government bodies under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) or the Integrated Housing and Slum Development Programme (IHSDP). The Task Force has recommended for creating an environment that would may rental housing for EWS and LIG categories of household a viable investment option.
- Affordable housing in India is not a social obligation, but a huge business opportunity. The demand-supply gap, coupled with strong demand drivers, offers developers and investors the potential for asset creation and profits. A portfolio of affordable housing projects with a real-estate developer or a real-estate fund will be a sure winner in enhancing the profile of the developer or investor.
- Private developers, colonizers and co-operative societies can be encouraged further with tax benefits and other incentives to make housing available to the economically poor at affordable rates.
- Government bodies can also seek support from NGOs and other civil society organizations in planning houses for the poor in terms of design and facilities. They can ensure the involvement of the urban poor in housing and resettlement efforts so that the plan is developed by those who have to be settled and relocated. NGOs can also play an

important role in loan recovery by encouraging and facilitating slum communities to save part of their earnings in recurring deposits and by making microfinance available to them. Facilitating such regular savings helps the more vulnerable families to benefit from such housing schemes.

Until housing rights are met, all talk of slum-free cities will be a sham. In such a situation, eviction of slum dwellers will amount to a cover-up of the state and society's failure to provide affordable housing for the poor.