

Problem Statement

India is undergoing rapid urbanisation. By 2025, it is expected that 50% of India's population will reside in urban areas. This will in turn contribute to 70% of the GSDP as urban areas are expected to create 70% of jobs. A threefold increase in per-capita income in urban areas is expected during this period of time. It is estimated that 65 million people reside in slums or substandard housing (up from 52 million in 2001). The prohibitive cost of private housing projects makes them unaffordable to a large fraction of the urban population. Affordable rental accommodation is also limited.

Issues to be Considered

The PM's speech at Madison Square Garden, NY in 2014 highlighted the goal of housing for all by 2022. One of the challenges of urban areas and smart cities will be to provide affordable housing to all segments of society. Current efforts in urban areas are largely limited to the Government under the schemes of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and the Rajiv Awaas Yojana (RAY). To ensure that the engines of growth for India be sustained, it is imperative that affordable housing in urban areas be tackled at the earliest.

Government effort is estimated to cater to only 5-10% of the demand. The private sector must be involved in projects associated with affordable housing. In this manner, the balance 90-95% of the demand can and will be met by the private sector.

For example, Mahindra Lifespaces has set up affordable housing projects in Chennai and Boisar. Janaagraha, through Janaadhar Constructions, is expected to build 500 homes (of good quality) near Bangalore at a price of ₹5lakh each or less, targeting households with a monthly income of ₹15000.

However, such projects are exceptions. Due to the smaller margins associated with affordable housing, most private developers are reluctant to undertake such projects. Incentives are needed to make such projects viable for developers.

Factors that contribute to high cost for developers (which act as barriers) include: 1) ~66% of the costs of housing is attributed to land costs, and 2) Regulations prohibit banks and housing finance companies to finance private developers to acquire land. Therefore developers must access high cost

funds (private equity, NBFCs as well as informal sector), and 3) After land is procured, it takes at least 24 months to get all approvals for commencement of construction. Approximately 75 approvals are needed. Time delays and the need for speed money, due to the large number of approvals contribute further to the high cost, which is passed on to the consumer.

Proposed Solutions

A number of measures can be undertaken to address each of the issues specifically for *affordable housing*. We define such housing units to be less than 700 sq. ft. and cost no more than ₹ 10 lakh.

RBI should permit banks to provide loans for purchase of land for affordable housing.

Zoning regulations should be amended to increase land supply and thereby reduce cost.

Affordable housing can be encouraged by providing various concessions. Higher FAR/FSI can be provided to improve land utilisation. Registration charges for such homes could be reduced to reduce the financial burden on consumers.

The approval cycle may be compressed through the following measures: 1) Central Government either suggests draft legislation for states to adopt or provides a guideline for an affordable housing policy. While some states already have this, there is a need for it to be

adopted across all states, 2) There is a need for single window clearance for all approvals relating to affordable housing, and 3) States must be incentivised through schemes to encourage the construction of affordable housing.

Wherever affordable housing is taken up, provision of water, electricity and sewage should be ensured by municipal authorities, on priority. Special efforts to ensure efficient public transportation should be made.

These steps will go a long way in achieving the goal of housing for all by 2022.

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Problem Highlight:

- 65 million Indians live in slums or substandard housing
- Prohibitive costs of private housing projects make them unaffordable

Proposed Solutions:

- Bank loans for purchasing land for affordable housing
- Reduce land costs through higher FSI/FAR provision
- Lower registration charges
- Shorter approval cycle