

Article

Affordable Housing Finance Market – the tractions and the challenges



Nidhi Bothra
nidhi@vinodkothari.com

2nd January, 2013

Check at:
<http://india-financing.com/staff-publications.html>
for more write ups.

Copyright:

This write up is the property of Vinod Kothari Consultants P. Ltd. and no part of it can be copied, reproduced or distributed in any manner.

Disclaimer:

This write up is intended to initiate academic debate on a pertinent question. It is not intended to be a professional advice and should not be relied upon for real life facts.



Article

The socio-economic growth of a country is largely dependent on the financial inclusion it is able to bring about; one of the aspects is availability of affordable housing. This article tries to focus on the recent impetus to the affordable housing finance market in India, the bottlenecks of growth for the segment, the incentives working for the segment and the outlook of the segment in the near future.

In India to a lot of regulatory impetus has been given to enable access to finance to the “bottom of the pyramid which remains largely bereaved of conventional funding sources. As per the “Report on Trend and Progress of Housing in India 2012¹” issued by the National Housing Bank (NHB), the housing shortage is estimated at 18.78 million and 43.67 millions in the urban and rural areas, respectively. The shortage is found the maximum in below the poverty line and Economically Weaker Sections (EWS) / Low Income Group segment (LIG), with 95% of the total housing shortage pertaining to EWS (households with annual income of less than INR 1 lakh / LIGs ((households with annual income of INR 1-2 lakh)². Over the years there has been much done to make low income housing and low income housing finance available to the so called “bottom of the pyramid, however the affordable housing and housing finance segment largely remains at the nascent stage with much yet to do.

There seems to be an ever widening disparity between the demand and the supply gap in the segment. The demand for houses in the range of Rs. 3-10 lakhs is around 22 million households with an estimated market size of Rs. 11,00,000 crs, for a sector whose monthly household income is less than Rs. 12000³. However there are very few players catering to this demand currently. Housing supply has steadily increased over the last few years. At least 78,000 low income housing units (LIH) units between INR 3-10 lakh launched in the last 5 years⁴. There are almost twice as many units have been launched in the last 30-month period as compared to the previous one. Several small developers have also had a major role playing in increasing the supply of affordable housing in several pockets of the country. While the small developers have not really scaled in operations but have contributed much to the supply side of the equation in the recent times.

While the supply of housing is low compared to the growing demand, availability of housing finance was almost non-existent in the low income informal housing space, as recent as, five years ago. In the 1990s, there were probably only two players catering to the low income housing finance segment. The number has significantly improved in the recent times with several new housing finance companies have

¹ <http://nhb.org.in/Publications/Report-Trend-and-Progress-of-Housing-in-India-2012.pdf>

² <http://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/Urban-housing-shortage-in-India.pdf>

³ http://mhupa.gov.in/W_new/14_Vikram%20Jain_AH%20scenario%20in%20India.pdf

⁴ http://www.deloitte.com/assets/Dcom-India/Local%20Assets/Documents/State%20of%20the%20Market%20report/20130725%20State%20of%20the%20market-%20Monitor%20Deloitte_vf_sma2.pdf



Article

entered the market space in the recent times. A number of HFCs are actively lending to the below Rs. 10 lakh market. As on date these new HFCs have a combined loan portfolio of Rs. 1,000 crores and are growing at the rate of 100%-300% per annum with almost zero NPAs⁵. These HFCs have helped bring about financial inclusion as almost 60% of the formal sector customers and 75% of the informal sector customers had previously no access to formal financial institution for financing.

Opportunities and Challenges in the sector

The traction witnessed in the recent times is largely attributable to the fact that the HFCs can see the sizeable demand in this segment which is largely going untapped. Counter to this, the upper segment is completely saturated. Also, developers have land banks unutilized which could be tapped to cater to this segment. Further a lot has been done at the policy level to incentivize HFCs to look at this market with external commercial borrowings being permitted to eligible developers/ builders for low cost housing projects⁶ and to HFCs for financing housing units under approval route, World Bank's agreement with NHB for a loan of \$100 million for providing access to sustainable low cost housing finance for low income group to purchase, build and upgrade dwellings, interest rate subsidies to borrowers, developer finance incentives and more.

Ofcourse, the market is not free from its own set of challenges. For the HFCs access to funds and the cost of funds is a prime concern. HFCs have access to debt at 10-14%, the operation costs are high and therefore they lend to customers at 13-17%. The housing supply is poor. There is absence of formal documentation for the low income customers. The low income customers have informal income but do not have access to finance and the existing housing finance players are not catering to this segment at all. The prime reasons for the traditional players not lending to this segment is the lack of availability of formal income documents, the credit appraisal is more of a qualitative analysis than formal credit analysis methods. For this business to become lucrative and scale, conducive and clear policies are required.

For the developers the key challenges happen to the availability of land and land conversion issues. Availability of land closer to urban areas is difficult and the projects can be built only on non-agricultural lands. The time taken for conversion of a land from agri to non-agri can go upto one year coupled with rising costs of construction make it even more challenging for the developers. Hence, leapfrogging locations has been an issue with the developers because the locations closer to the cities are developed, however such leapfrogged locations lack good infrastructure. If this was not enough there are myriad approvals required for starting a project

⁵http://www.deloitte.com/assets/Dcom-India/Local%20Assets/Documents/State%20of%20the%20Market%20report/20130725%20State%20of%20the%20market-%20Monitor%20Deloitte_vf_sma2.pdf

⁶<http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=8053&Mode=0>



Article

which includes approvals from town planning authorities to collector to village panchayat. Further, there is no standardization for building houses, which also adds to the cost of construction and development.

Conclusion

While the sector seems to be gaining pace and visibility there is lots still to be done, to make the model scalable and sizeable. Availability of long and medium term sources of funds for the HFCs, proactive regulations and supervisions which are facilitating and enabling, promoting low income rental housing and incentives for builders to cull profits in low income housing models for them to focus on the segment are much needed for the market.

The challenge before the regulators and the government is not just to supply many homes, but also to ensure that they are built at the right location, available at an affordable price to households that are in most need and of adequate quality so that leapfrogging can be avoided completely. The government has set up the Dhanendra Kumar Committee for recommending setting up of a technology enabled single-window portal for streamlining the process of approvals for real estate projects, the Real Estate (Regulation and Development), Bill 2013 is being reviewed and several policies are put to action and tax incentives are offered to streamline the bottlenecks for the sector. There is more that needs to be achieved to make affordable housing and affordable housing finance viable and lucrative industry.

The success achieved so far is minuscule as compared to the humungous task before the regulators, however the recent developments are surely the silver lining.

Our write ups on similar topic can be viewed at:
<http://india-financing.com/housing-finance.html>