Fostering Affordable Housing Markets: Catering to the Unmet Demand

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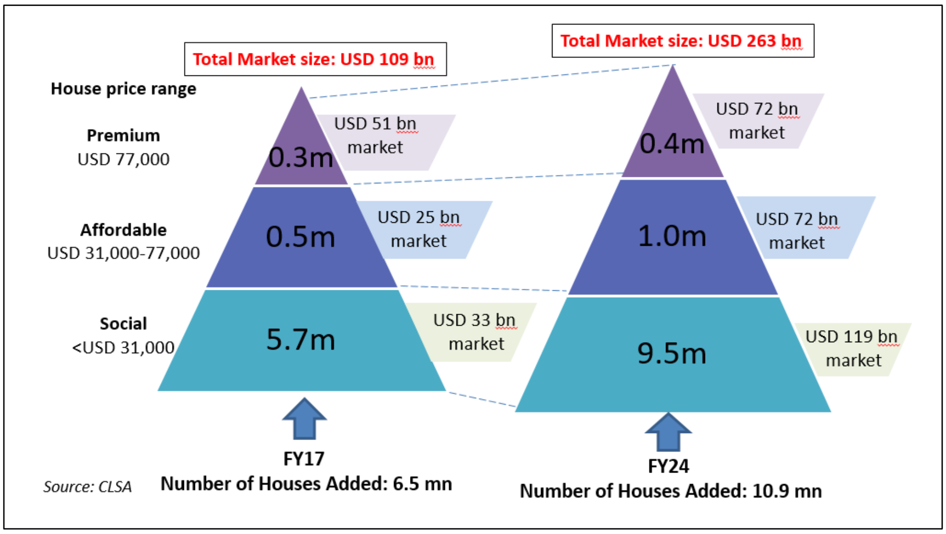
Presently India is among the fastest growing major economies in the world. Its economy's huge size catering the needs of a big population of 1.3 billion (population wise 2nd biggest country in world), of which 66% is under 35 years of age has a great demand for housing almost all segments of the market. India's current urbanization position is 32%, or 377 million, of total population, which is expected to rise to 40%, or 600 million, by the year 2030. India's housing shortage presently is calculated at 18.8 million, which will also exponentially increase by 2030. India's per capita income has risen from USD 1,345 in 2010 to USD 1,860 in 2016. This is also contributing to people's hope, desire and capability of purchasing a decently affordable house for their own. As the fast growing economy, people's purchasing desire as well purchasing power is also on the increase.

Fuelled by rapid economic upturn of the country, the overall housing market size is also expected to grow by 2.4x by FY24, and affordable housing market by 2.9x. The following graphic presentation gives the proper understanding of the expected rise in the market demand:



So, India has the huge potential to see substantive increase in its housing market, particularly in affordable housing segment, along with the surge housing finance agencies, which are already active nationwide, and would farther increase in keeping pace with the increasing demand for housing.

Evolution of Housing Finance in India

Here is a brief history of evolution of housing finance in the country at a glance:

Timeline	Actions/Activities
Pre-1970	Centralised directed credit
1971	Housing and Urban Development Corporation – public sector, wholesale lending – financed State Housing Boards and Development Authorities
1977	HDFC: India's 1st mortgage finance company formed

[1] Based on paper presented at 9th Annual Affordable Housing Projects Conference, Singapore, April 4, 2018

Timeline	Actions/Activities
1988	National Housing Bank- regulator of HFCs came into existence, which plays a combined role of regulator and development, provides refinance
Late 80s and early 90s	Public sector banks/insurance companies promote HFCs, private sector also enters
1990	Scheduled commercial banks get active in direct lending for housing finance
2010	Rise in Affordable Housing Finance Companies focusing on self-employed customers in the informal sector
2017	Affordable Housing Finance Budget – incentivized all constituents in the housing chain – developers, borrowers and lenders

While various institutions and setups were being developed to facilitate the rising demands of mortgage financing, supporting institutional frameworks were also coming out to meet the market requirements for mortgages.

The most important component of today's financing paradigms are the Credit Bureaus. India's first credit bureau was established in 2000, and now India has 4 credit bureaus. Next important thing, for keeping the market's behaviour under control and within the satisfactory levels of the financers are the foreclosure norms, which came into existence in 2002. To prevent fraudulent activities, Central Mortgage Registry was established in 2011. With the objective to ensure compliance on the part of developers and to provide consumer protection, real estate regulators were created under Real Estate Regulatory & Development Act, 2016.

The question is of affordability

In today's world, whether in highly developed, economically strong country, or the country is developing and just started seeing the fruits of economic betterment for its people, or the country as a whole is in the bottom of the pyramid, the matter grave concern is affordability. The housing affordability are many faced demon, hitting both demand side and supply side of the issue, having problems covering the issues from availability of land, and that is serviced land, to the availability of the products within the reach of the targeted people, to facility for the desiring people to get required financing as per the need and demand. The Indian case, for its huge population with its huge demand and limited availability of resources, is not any different. India is also striving hard to address the question of affordability, as this is a sort of natural ingredient for its government also to meet the housing needs of its people.

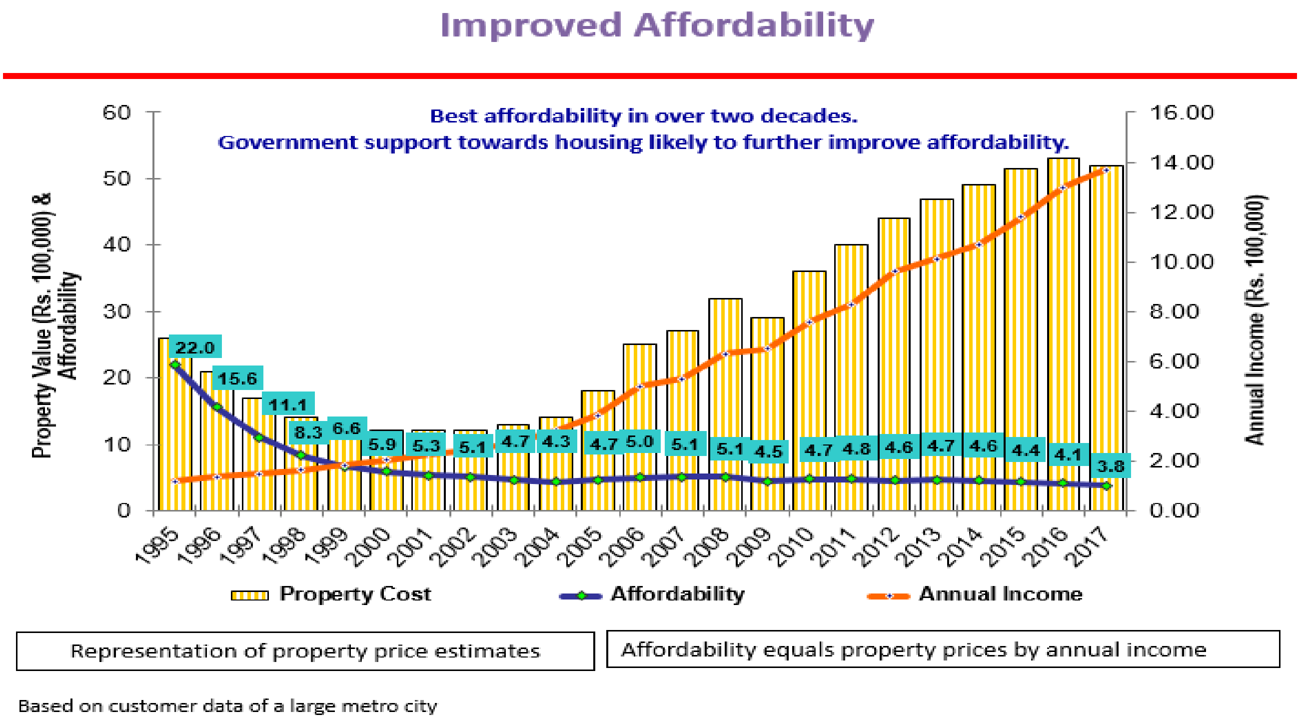
Affordable Housing Finance – Challenges and opportunities

The key hindrances to affordable housing in India, as in any other country, is the lack of availability and high cost of land. Cost of collecting information on borrower's credit worthiness is high and time consuming affecting scalability. Income assessment may be inaccurate because of limited verification options. Frauds/ integrity issues may also result in higher losses. Higher yields are temporary in nature – re-pricing of mortgage debt may become necessary to retain the loan book. Unavailability of trained/ skilled resources and high turnover of employees is sometimes also a considerable problem from mortgage writers, particularly in the sector of affordable housing, because of special nature of the clientele. Almost a similar problem is in credit appraisal. Loans generally given to those working in the informal sector may not have 'documented' proof of income and hence may be difficult to accurately assess the credit risk of the customer. Similar issue is small ticket loans with large volumes. On the legal side also, such type of financing has some challenges, as most low income households have 'para legal' rights to their properties, which falls short of full legal title.

Opportunities: Demand for affordable housing by 2022 is estimated at 25 million units (in place of present 18.8 million). There are huge opportunities in Tier 3 & 4 cities with end user demand. Affordable housing finance market is estimated to be a USD 95 billion by 2022. Combination of factors are converting latent demand into a commercially lucrative business opportunity, which are:

- Government financial support and policy thrust,
- Regulatory support,
- Rising urbanization,
- Increasing nucleatizaion of families, and
- Increased affordability

It has been observed, over the past a few years the affordability in India has been on the rise, thanks to concerted efforts by the Indian government and the private players in this regards:

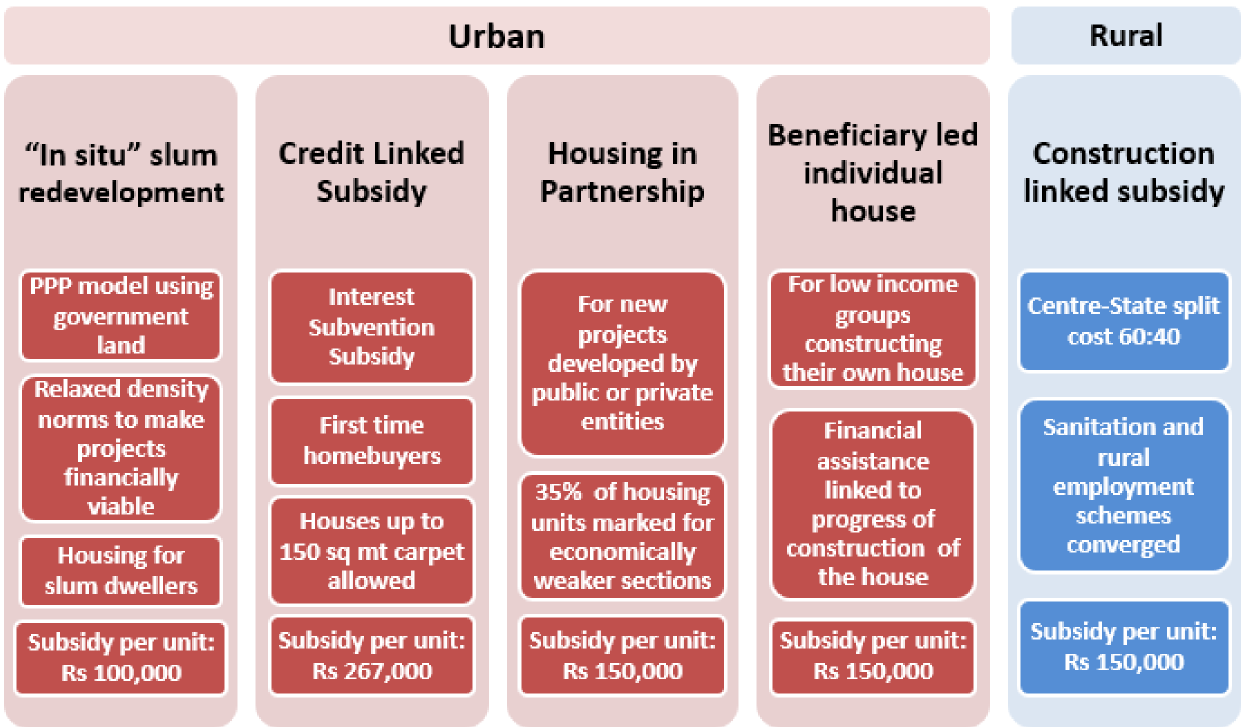


Indian Government's Initiatives resulting in the overall affordable level in the country

- **Fiscal Incentives**
  - Tax incentives on interest and principal amount for home loan borrowers
- **Interest Subvention Scheme**
  - Interest rate subsidy under the Credit Linked Subsidy Scheme (CLSS) widened to include middle-income groups
  - Extension of timeframe and rationalisation of conditions under the CLSS
- **Supply Side Incentives**
  - Incentives to developers to build affordable housing
  - 'Infrastructure' status accorded to affordable housing
  - Increased budgetary allocations for home refinance schemes

In the period under consideration, the government initiated many housing schemes to fight the housing affordability issue. These are tabulated as follows:

Government Schemes for Housing



PPP: Public-private partnership

The Credit Linked Subsidy Scheme (CLSS) is one of the key components under the government's flagship programme, "Housing for All by 2022". In March 2017, the CLSS was amended to include the Middle Income Groups (MIG), in addition to the Economically Weaker Sections (EWS) and Low Income Groups (LIG). The interest subsidy on the home loan is paid to the beneficiary upfront, thereby reducing the amount of the equated monthly instalment (EMI). The important condition for being eligible for Housing for All by 2022 is that the beneficiary family should not own any home in their names.

HDFC, the driving force behind affordability – an overview

HDFC is India's first and most popular mortgage finance company, and has created a very special place in India's housing finance and mortgage industry. It is also playing a very distinguished role and increasing affordability through financing.

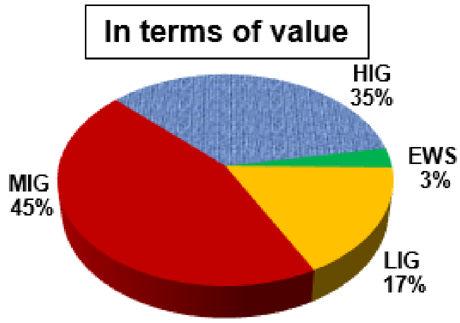
It is also a strong driving force behind the e government's flagship scheme, 'Housing for All'. It has increased its efforts towards loans to the Economically Weaker Section (EWS) and Low Income Group (LIG).

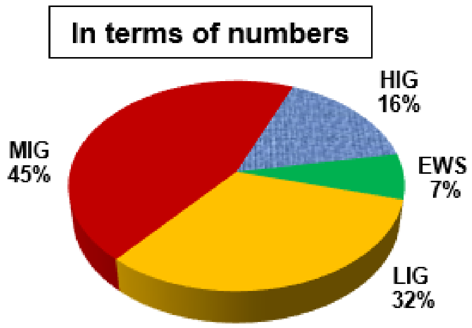
It is committed to fund the developers building affordable housing, in association with IFC, while doing impact assessment through enhanced environment, social and governance norms.

HDFC has sponsored a property fund to provide long term, equity and mezzanine capital to affordable housing projects at land and pre-approval stage.

HDFC, besides being a mortgage finance company has also promoted a commercial bank, life and general insurance company, asset management, property funds and other value added property related services.

HDFC's thrust for affordable housing can be gauged from the following chart:





Economically Weaker Section: Up to USD 4,600 p.a	Low Income Group: Above USD 4,600 to USD 9,200 p.a.
Middle Income Group: Above USD 9,200 to USD 18,500 p.a.	High Income Group: Above USD 18,500 p.a.

(Housing Loan Approvals Based on Income Slabs: Apr-Dec 17)

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