



Whitepaper 13- Affordable Housing in India: Definition and Current Status

Housing conditions impact a multitude of other well-being indicators like the individual's access to infrastructure, employment, household wealth, health, education and women's participation in the workforce.¹ Therefore, it is important that decent and affordable housing is available widely.

The 2011 Census documented a shortfall of 18 million houses in urban India, or 12.4 percent of the overall residential stock.² Interestingly, however, the Government of India in 2017, documented 11 million vacant houses.³ Subsequently the government introduced different schemes and policies in a bid to facilitate access to housing for low income communities. The eligibility criteria to determine the beneficiaries of its schemes underwent several revisions over the years. Recently, the government has used the term 'affordable' to describe certain types of housing projects or home loans which may be availed by individuals belonging to lower income groups.

Historical review of affordable housing initiatives

In the early decades after Independence, the main focus of the central government was to deliver finished housing to targeted beneficiaries.^{4,5} The beneficiaries included groups such as refugees and migrants who came to cities in the wake of the Partition. In the First Five Year Plan, the government also made focused attempts to rehabilitate slum dwellers. While the central

¹Indian Institute of Management (Bengaluru) (2015)- Affordable Housing: Policy and Practice in India

² IDFC Institute (2018)- India Infrastructure Report: Making Housing Affordable

³ Ibid

⁴ The focus of the initial Five Year Plans was on providing finished housing to beneficiaries because the state viewed housing as a welfare good and not an 'economic good' which contributed to economic growth.

⁵ Indian Institute for Human Settlements (2011)- Revisiting Low Income Housing: A Review of Policies and Perspectives

government implemented housing schemes in urban India, it left the state governments to address the housing challenge in rural areas.⁶

Although initially the main thrust was to provide finished housing to beneficiaries, the government made sporadic attempts to provide an impetus to the housing finance sector. For instance, through the First Five Year Plan (1951-1956), it proposed that a National Housing Board and state-wise Regional Housing Boards be set up for financing and implementing housing schemes. The Center also formulated some schemes for lending retail home loans to select beneficiaries. Thus, in 1954, home loans were given to individuals who had an annual income of less than ₹6,000 through the Low-Income Group (LIG) Housing Scheme. Loans up to 80 percent of the cost of building a house were given to beneficiaries, subject to a cap of ₹ 8,000. In 1959, through the Middle-Income Group (MIG) Housing Scheme, loans were provided to individuals whose income was between ₹ 6,000 and ₹ 12,000 per annum.⁷ **All of these schemes were formulated to ease access to housing for people whose incomes fell below a certain level.**

During the first three five-year plans, mortgage lending by the private sector was nearly non-existent. In fact, borrowing mortgages itself was uncommon. Only around 10 percent of the houses were built or purchased through mortgages from institutional agencies, while the remaining 90 percent were built or purchased using people's own savings and informal sources such as moneylenders or friends.⁸ **The main institutional lenders of mortgages for low and middle-income groups were housing co-operative credit societies, which were concentrated in Maharashtra and Tamil Nadu.**⁹

Over the years, the government shifted its focus from providing finished housing to facilitating housing activity. In 1970, it incorporated the Housing and Urban Development Corporation Limited (HUDCO) under the Companies Act, 1956. HUDCO's mandate was to provide long-term finance for the construction of residential and finance housing and urban development programmes in the country, with a special focus on facilitating access to housing for people in the Economically Weaker Sections and Low Income Groups. Thus, in 2000-01, 95% of the houses sanctioned by HUDCO benefitted the EWS & LIG groups.¹⁰ Today, HUDCO continues to finance multiple schemes for beneficiaries in the EWS and LIG groups as defined under Pradhan Mantri Awas Yojana across India.

⁶ [Hyderabad Urban Lab \(2014\)- A Short History of Housing Policies in Independent India](#)

⁷ [Terra Economics and Analytics Lab \(2020\)- Evolution of Housing Finance in India](#)

⁸ [IIBF \(2012\)- Housing Finance: A study of the Experience of Commercial Banks](#)

⁹ [Co-operative Housing International- About India](#)

¹⁰ [Ministry of Housing and Urban Affairs- Housing & Urban Development Corporation \(HUDCO\) Limited: Performance during the Year 2000-01 Operational Highlights](#)

With the entry of housing finance companies - HDFC was the first to be established in 1977 - and proliferation of lending by Scheduled Commercial Banks (SCBs), mortgage lending received an impetus. Periodically, the RBI also implemented policies to ensure that housing loans were disbursed to targeted beneficiaries under its 'priority sector lending' policy. For instance, in 2014, it made SCBs liable to lend loans up to ₹ 28 lakh to beneficiaries in metropolitan areas, with a population of 10 lakh or more, as long as their houses did not cost more than ₹ 35 lakh per unit. Banks were also mandated to lend loans up to ₹ 10 lakh for the construction of dwelling units for the rehabilitation of slum dwellers who had been displaced due to slum clearance projects.¹¹

Recent Housing Schemes

Jawaharlal Nehru National Urban Renewal Mission and Rajiv Awas Yojana

The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and Rajiv Awas Yojana (RAY) which were launched in 2007 and 2009, respectively, categorized houses by their area into multiple categories as follows:-

- **Housing for Economically Weaker Sections (EWS)**- Minimum of 300 square feet super built up area or minimum of 269 square feet (25 square meter) carpet area
- **Housing for Low Income Groups (LIG)**- Minimum of 500 square feet super built up area or maximum of 517 square feet (25 square meter) carpet area
- **Housing for Middle Income Groups (MIG)**- 600 to 1200 square feet super built up area
Maximum of 861 square feet (25 square meter) carpet area

Pradhan Mantri Awas Yojana

The Pradhan Mantri Awas Yojana (PMAY) was launched in 2014 to address the affordable housing shortage in our country. It defined the following income categories of people to qualify for availing housing:-

- **EWS:** Beneficiaries in this category are households having an annual income up to ₹ 3,00,000 (Rupees Three Lakhs)
- **LIG:** Beneficiaries in this category are households having an annual income between ₹ 3,00,000 (Rupees Three Lakhs) and Rs. 6,00,000 (Rupees Six Lakhs)
- **MIG:** Beneficiaries in this category are households having an annual income between ₹ 6,00,000 (Rupees Six Lakhs) and Rs. 12,00,000 (Rupees Twelve Lakhs)

¹¹ Terra Economics and Analytics Lab (2020)- Evolution of Housing Finance in India

Reserve Bank of India

In 2018, the Reserve Bank of India brought affordable housing loans under priority sector lending. These loans amounted to ₹ 35 lakh in metropolitan centers (with a population of 10 lakh and above) and ₹ 25 lakh in other centers, provided the overall cost of the dwelling did not exceed ₹ 45 lakh and ₹ 30 lakh, respectively.

Current status- affordable housing sales reach 5 year high in Pune and MMR while other cities show recovery from 2020 levels

Based on the Reserve Bank of India definition of cost of houses qualifying under the affordable category (₹ 45 lakh), we analyzed the sales data for affordable transactions over the past 5 years in Mumbai Metropolitan Region (MMR), Pune, Gautam Buddha Nagar, Ghaziabad and Bengaluru. We found that compared to 2019 levels, the affordable housing sales in all the geographies increased in 2021. The year 2020 saw a dip in overall property sales and not just affordable housing sales owing to the Covid-19 pandemic and the lockdowns imposed to curb its spread across India.

The year 2021 saw affordable housing sales taking off in MMR and Pune. The spike in overall sales can be attributed to a host of measures including stamp duty concessions enacted by the Maharashtra government between September, 2020 and March, 2021.^{12, 13} Furthermore, factors like lower capital values, decade low home loan interest rates and developer's offers provided an impetus to property sales in both the cities. **In fact, property sales in MMR excluding Mumbai city witnessed the highest volume in a decade in 2021.**¹⁴ Gautam Buddha Nagar, Ghaziabad, Bengaluru and Hyderabad, all recorded an uptick in sales in 2021, showing a strong recovery from 2020 levels. Pent up market demand, upswing in the job market, low interest rates and the work home culture contributed to the spike in property sales including affordable housing sales in 2021 in all the geographies.¹⁵

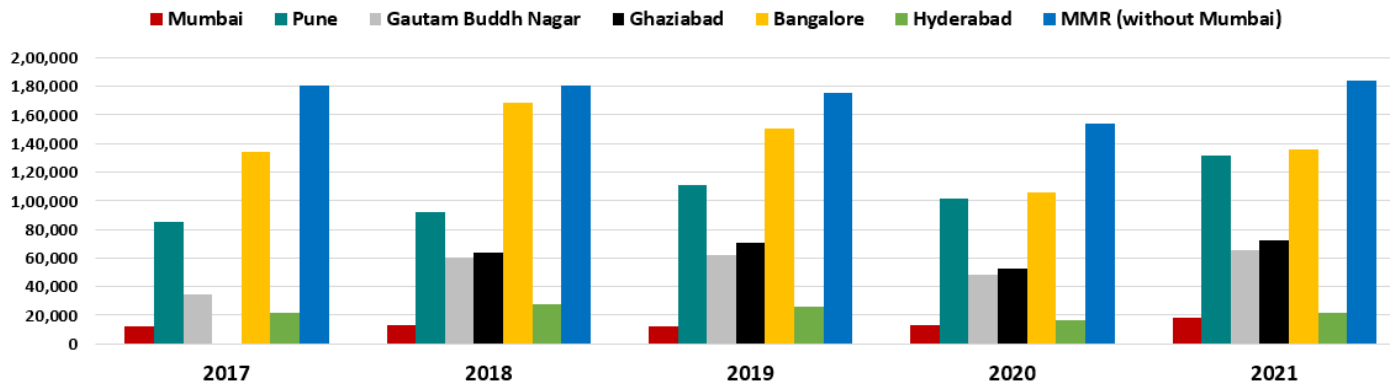
¹² In September, 2020, the Maharashtra government cut stamp duty from 5 percent to 2 percent and then increased it to 3 percent in January, 2021. In March, 2021, the government again reduced stamp duty to 2 percent for women buyers. In April, 2021, the stamp duty was increased to August 2021 levels, i.e., 5 percent.

¹³ [Terra Economics and Analytics Lab \(2022\)- Property Sales Trends in MMR and Pune \(July - December 2021\)](#)

¹⁴ [Terra Economics and Analytics Lab \(2022\)- Property Sales in Mumbai Reach 10 Year High in 2021](#)

¹⁵ [Terra Economics and Analytics Lab \(2021\)- Bengaluru - Post-Pandemic Property Sales Recovery](#)

Property Sales in the Affordable Segment (Jan 2017 - Dec 2021)



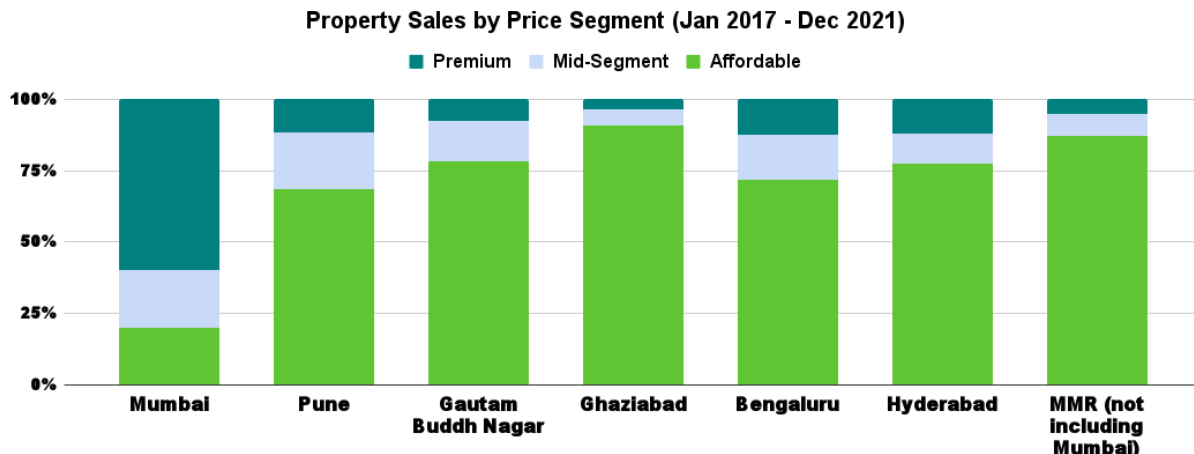
Source: TEAL data

Affordable housing dominates all housing markets except Mumbai

The share of affordable housing out of the total housing transactions has been increasing steadily across the major cities in India, except Mumbai where more than 50 percent of the sales fall in the premium category. The 2021 spike in MMR can thus be attributed to an increase in affordable housing sales in other parts of MMR. The upward trend in property sales in the affordable housing segment in MMR and Pune can be attributed to a series of stamp duty concessions enacted by the Maharashtra government between October, 2020 and March, 2021.¹⁶

In the case of Bengaluru too, stamp duty cuts were partially responsible for propelling property sales in the latter half of 2020 and 2021; in May 2020, the Karnataka State government reduced stamp duty charges from 5% to 3% for flats below Rs 35 Lakh, and to 2% for flats priced below ₹ 20 Lakh to bolster economic recovery.

¹⁶ Terra Economics and Analytics Lab (2022)- Property Sales Trends in MMR and Pune (July - December 2021)



Source: TEAL data

Making affordable housing widely available: Challenges and way ahead

It is important for an economy to have a vibrant mortgage market to ensure that housing remains affordable. Although India's mortgage-to-GDP ratio has increased steadily over the last ten years, formal mortgage penetration in the country remains low.^{17, 18} Ensuring the proliferation of mortgages through micro mortgage financing mechanisms and self help groups, and instituting flexible paying mechanisms to cater to variable income flows could go a long way in increasing the reach of formal mortgages in the country.¹⁹

On the supply side, policy interventions like increasing Floor Space Index (FSI) across cities can encourage greater private participation in affordable housing provision by incentivizing developers.²⁰ Furthermore, India has one of the most cumbersome procedures required of developers to register their projects with the Real Estate Regulatory Authority (RERA). Registration with RERA requires the applicant to obtain multiple compliances from several government agencies. For instance, in Karnataka, the online registration process requires the submission of 25 different No Objection Certificates (NOCs) from various authorities, making the entire process very time-consuming.²¹ By instituting simpler registration procedures and mechanisms like single-window clearance for smaller projects on the lines of large township projects, an enabling atmosphere for affordable housing developers can be created.²²

¹⁷ Terra Economics and Analytics Lab (2020)- Evolution of Housing Finance in India

¹⁸ India's mortgage-to-GDP ratio is 11 percent in 2021.

¹⁹ Indian Institute of Management (Bengaluru) (2015)- Affordable Housing: Policy and Practice in India

²⁰ JLL (2016)- Affordable Housing in India: Key Initiatives for Inclusive Housing for All

²¹ Terra Economics & Analytics Lab (2021)- Key Features and State-wise Implementation of the Real Estate (Regulation and Development) Act (2016)

²² Indian Institute of Management (Bengaluru) (2015)- Affordable Housing: Policy and Practice in India