



Affordable Housing

The Indian perspective & future outlook:
Building change & sustainable communities

March 2018



Foreword

The affordable housing sector in India is going through interesting times. The most significant development was the grant of infrastructure status to the sector in the Union Budget 2017-18 which is likely to incentivise developers by giving access to cheaper sources of funding and reducing the cost of borrowing. Another push was given by the new public-private partnership (PPP) policy announced to attract private investments. These initiatives are clearly in line with the vision and mission of “Housing for All” by 2022.

However the sector still needs several requisite policies and regulations for promoting better coordination between housing stakeholders & rationalisation of fees and taxes. Steps to help reduce project cost still need to be introduced.

PHD Chamber is committed to significantly contribute toward realizing our Hon’ble Prime Minister’s dream and on this backdrop we are organizing “National Affordable Housing Summit-2018” on 28th March, 2017 at PHD House.

I am very delighted to know that a report has been prepared by JLL along with PHD Chamber to on promotion of affordable housing and highlighting important issues. I am sure that this report will be very useful for all relevant stakeholders.



Anil Khaitan

President
PHD Chamber of Commerce

Preface

The phenomenon of urbanization in today's fast-paced world is inevitable, specially in emerging economies. Urban India today houses 377 mn people, constituting 32% of the country's population, with an annual addition of 8 mn as per Census 2011. This is further estimated to increase to 40% with a population of close to 600 mn living in the urban centres by 2030.

The rapid shift is attributed to several factors of liveability, which cities offer over rural areas - employment opportunities complemented by advancements in technology, access to education, healthcare as well as improved standards of living. Like any other developing nation, Indian cities today are haunted by the quintessential issue of a grave imbalance between the supply side of available housing and satisfying the actual demand. In order to provide for its inhabitants, a growing city is expected to cater to their basic needs, starting with affordable housing.

Given the utmost significance of affordable housing in today's urban context, it has become an integral part of the national agenda of the country and hence finds unequivocal mention in the politburo's policies. The country too has seen a surge of policies and measures at the national and state level, oriented to regularize development in this sector. Attracting private players for an enhanced pace of construction and quality

products, producing budget housing units that provide basic amenities and access to affordable transportation, education and quality healthcare is the need of the hour. The Smart Cities Mission provides avenues for tapping into a larger resource pool via facilitating convergence with other ongoing and planned schemes at the central and state level. Leveraging this opportunity, several Smart City proposals have addressed the need for affordable housing and have included the same in their respective development agendas. Schemes such as these will cater to the sustained growth of the sector over the long run.

This paper delves into Affordable Housing with a focus on understanding the best global practices which can be adopted by India. Ushering in the much-needed change is imperative when we strive to bridge the gap between the housing deficit and the ongoing supply of housing units across the country. India is on the right track with its recent initiatives in the sector. Reinforcing these measures and applying innovative methods to implement these provisions will help streamline our approach in tackling the housing issue.

Additionally, the paper discusses the various measures Gol has adopted in the recent decades to alleviate the phenomenon of homelessness. An array of recent policies and strategies including facilitating PPP in Affordable Housing is

deliberated, highlighting the benefits of these initiatives. The paper also throws light on the prevailing drag factors that need to be addressed to achieve optimized growth in Affordable Housing. Presenting the Indian perspective with the intent of drawing lessons from the global best practices, I am confident that this background paper will act as a backdrop to the thrust the sector requires as well as play a pivotal role in the transformation of 'Affordable Housing' from mere budget housing units to the provision of 'more than just a home'.

I do hope you find this an interesting read.



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Background

Global Population Rise And Urbanization

Human population is on a rise at a global level. The world's population at nearly 7.6 bn as of mid-2017, implies that the world has added approximately 1 bn inhabitants over the last 12 years*. Around 83 mn people are being added to the world's population every year as per current estimates. According to the

medium-variant projections made by the Population Division of the United Nations - Department of Economic and Social Affairs, global population is expected to hit 8.6 bn by 2030, 9.8 bn by 2050 and 11.2 bn by 2100.

Developing nations across the world are

large contributors to the growing global population. 60% of the world's people live in Asia (4.5 bn). China with 1.4 bn and India with 1.21 bn remain the two most populous countries of the world, accommodating 19% and 18% of the global total, respectively**.

Urbanization - The Indian Context

India's development scenario is on an upward trajectory. Rapid development translates to accelerated rate of urbanization where the phenomenon of migration is inevitable. **This is catalysed by what urban areas offer over a rural setting - an array of employment opportunities, improved social indicators such as health and education, and access to basic services.**

As per the 2011 census, over 30% of the population lives in urban areas. India currently reflects an urbanization of 32% (2017).

40% of country's population is expected to reside in urban areas according to the UN State of the World Population report in 2007, by 2030. 377 mn people out of India's 1.21 bn population are urban dwellers as per the 2011 census. The Federation of Indian Chambers of Commerce (FICCI) estimates that by 2050,

the country's cities would witness a net increase of 900 mn people. Furthermore, over 2012-2050, the pace of urbanization is likely to increase at a CAGR of 2.1% - double than that of China***.

The cities of India are under immense pressure and struggling to accommodate the ever-growing migrant population. Mumbai alone accommodates 12.5 mn people and is the largest metropolis by population in India, followed by Delhi with 11 mn inhabitants. Witnessing the fastest rate of urbanisation in the world, Delhi's population rose by 4.1%, Mumbai's by 3.1% and Kolkata's by 2% as per 2011 census in comparison with 2001 census.

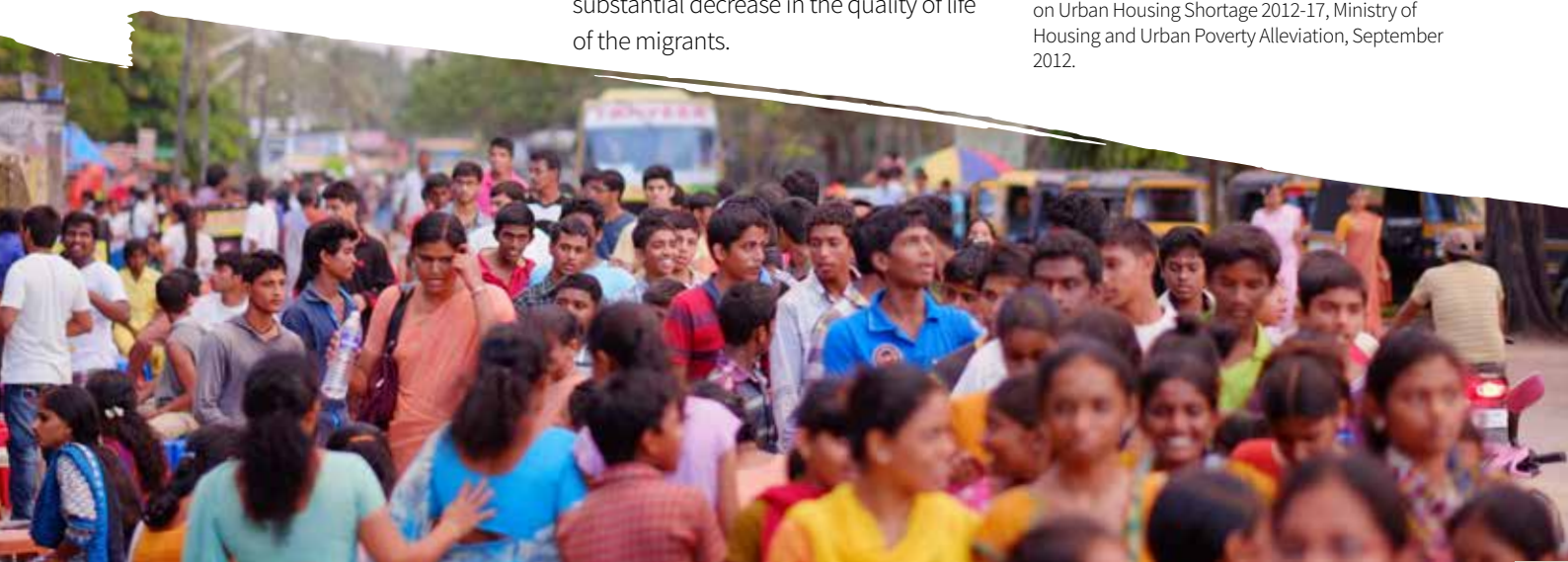
Our cities now face the consequences of exponential urbanization and 'development' - increase in squatter and slum settlements, sub-standard and lack of basic services, limited access to quality healthcare and education, all hinting at a substantial decrease in the quality of life of the migrants.

With rapid and incessant growth in population and inevitable migration to growing cities, demand for housing seems fathomless and harder to gauge by the year. Cities today face the issue of diminishing land availability, exaggerated land and real estate price due to population surge, over-burdened and defunct basic infrastructure services, lack of access to basic facilities, environmental degradation and loss, and the haunting dearth of housing. Slums are an inevitable consequence of unplanned urbanization. With an estimated slum population of about 65 mn and another 0.9 mn homeless people in urban India, our cities face the burgeoning crisis of housing deficit.

*Source: World Population Prospects: The 2017 Revision. New York: United Nations.

** Source: United Nations - Department of Economic and Social Affairs.

***Report of the Technical Urban Group (TG-12) on Urban Housing Shortage 2012-17, Ministry of Housing and Urban Poverty Alleviation, September 2012.



Housing Deficit In India - Are We Bridging The Gap Yet?

The Ministry of Housing estimated a housing shortage of 18.78 mn houses during the 12th plan period, with 99% in the economically weaker section (EWS) and lower income groups (LIG).

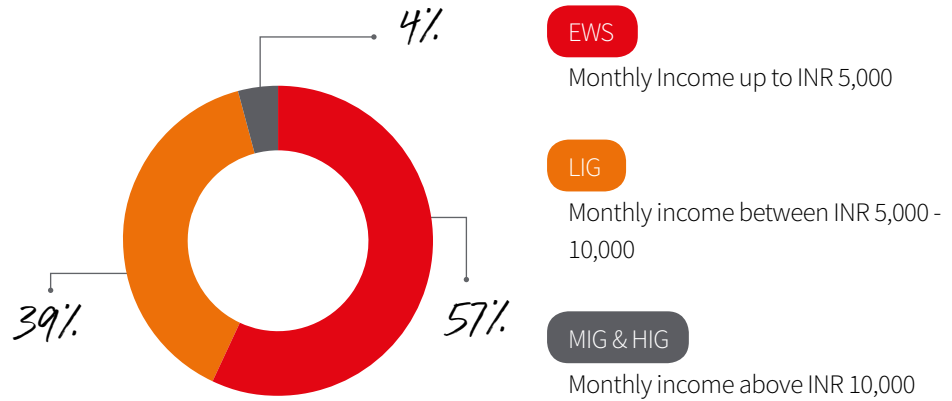
Further, the country's total urban housing shortage is projected to be about 30 mn by 2022. The report prepared by the Technical Urban Group (TG-12) on Urban Housing Shortage 2012-17

(MoHUPA) also highlights that nearly 1 mn households are living in non-serviceable kutchha houses, while over half a million households are in homeless conditions.

Distribution of Estimated Urban Shortage in India (Millions) - 2012

Urban Housing Shortage

18.78 mn

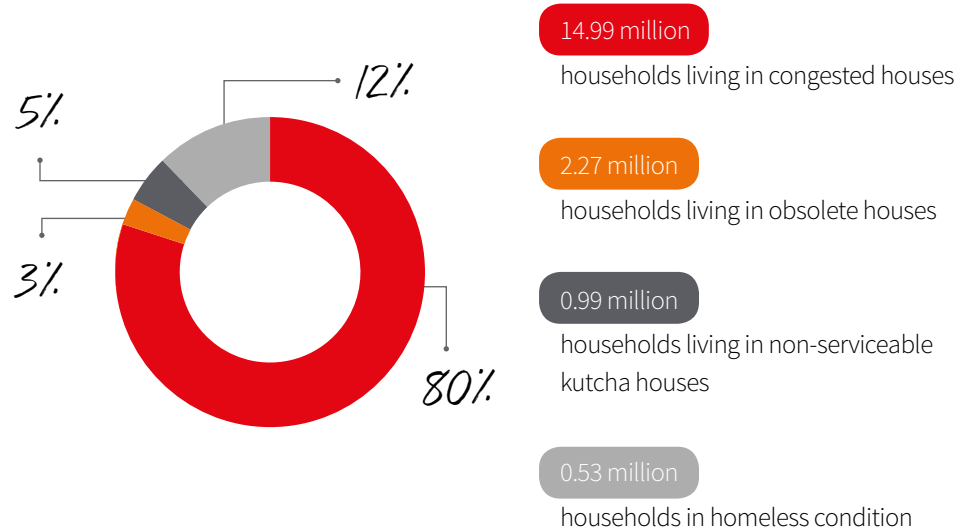


Source: Report of Technical Group (TG-12) on Estimation of Urban Housing Shortage 2012, Ministry of Housing and Urban Poverty Alleviation

Estimated Urban Shortage in India by housing type/deficit (Millions) - 2012

Houses less than or equal to 300 sq. ft

80%



Source: Report of Technical Group (TG-12) on Estimation of Urban Housing Shortage 2012, Ministry of Housing and Urban Poverty Alleviation

Bridging the gap between the high demand for housing and the grave shortage in supply has been part of the national agenda in the recent

decades. Housing that is affordable to working households and in proximity to their places of employment is a vital component of a region's economic

health. Large scale budget housing projects are without doubt the need of the day to address the mammoth shortfall in the housing sector.

The key aim over the years has been to address the homelessness of the EWS population living in squatter settlements. However, there has been a rise of the LIG

who are forced to take shelter in slums or in dilapidated housing units. Also the expansion of the middle-class along with the recent culture of 'Home Ownership'

have ushered in the concept of budget homes with basic amenities and modest living spaces.

Hence the rise of 'Affordable Housing' as a solution to providing homes across various sections of the society.

The Concept Of Affordable Housing

Estimating Affordability

Internationally, housing affordability is defined in multiple ways. One of the most commonly accepted definitions of affordability refers to housing affordability which is taken as a measure of expenditure on housing to income of the household.

Global Affordability Parameters

The most widely used parameters to estimate affordability internationally are as below:

Expenditure Method or Housing Cost Burden:

The ratio of housing expenditure to household income is used to measure affordability. Housing expenditure covers all the costs related to housing including rentals, mortgage repayments, utilities and maintenance costs. Housing units can be classified as affordable if the ratio is less than some cut-off value. The choice of this cut-off is judgemental; however, as a thumb rule, it is taken to be 30%.

According to the GoI, Affordable housing refers to any housing that meets some form of affordability criterion, which could

Median Multiple Indicator:

Under this approach, the median house price is divided by median household annual income to derive housing affordability. Demographia International, an organisation which conducts survey across countries for affordable housing, considers price to income ratio below 3 to classify housing units as affordable.

be income level of the family, size of the dwelling unit or affordability in terms of EMI size or ratio of house price to annual

Housing and Transport (H+T):

In this method, transport costs are also included with housing costs to measure affordability. The underlying idea is that congestion in cities has led to rise in human settlements at long distances from the city centre, which has resulted in increase in costs and time spent in commuting.

income. This implies that affordable housing is defined via three basic parameters as shown in the table below.

Table 1: Definition of Affordable Housing, GoI

| | Min. area of habitation | Provision of basic amenities | Cost of house |
|-----|--|---|---|
| EWS | Min. 300 - 500 sq ft (super built up area) | <ul style="list-style-type: none"> Sanitation, adequate water supply and power Provision of community spaces, amenities such as parks, schools and healthcare facilities within project area or neighbourhood depending upon the site and location of the housing project | <ul style="list-style-type: none"> EMI < 30-40% of gross monthly income of buyer Reasonable maintenance cost |
| LIG | 500 - 600 sq ft | | |
| MIG | 600-1,200 sq ft (super built up area) | | |

Source: Ministry of Housing and Urban Affairs

Affordable Housing

The Indian Context

In India, affordable housing is a term widely used in the urban context. Future national competitiveness and economic

success will depend on the comparative efficiency of cities. The quantity, quality, availability and affordability of housing

becomes a key component in national economic competitiveness.

Overview Of National And State Schemes

The rural housing sector at the national level falls within the purview of the Ministry of Rural Development, whereas housing and human settlements in urban areas is the jurisdiction of the **Ministry of Housing and Urban Poverty Alleviation**. It is the latter Ministry that has spearheaded Affordable Housing as a concept and policy in India. The

policy framework for affordable housing is provided by key missions introduced by the GoI to tackle the issue of housing deficit, namely - the National Urban Housing & Habitat Policy (NUHHP2007), along with the Jawaharlal Nehru National Urban Renewal Mission (JNNURM-2005), Basic Services for the Urban Poor (BSUP), Integrated Housing & Slum Development

Programme (IHSDP) and the Rajiv Awas Yojana. The NUHHP 2007 lists a number of objectives that include urban planning, land availability, special provisions for women, public private partnerships, management information systems and so on (MoHUPA, 2007).



This section delves into the array of Central Govt. schemes introduced to provide a boost to the sector of Affordable Housing. A brief of the schemes is presented below:

National Urban Housing And Habitat Policy, 2007:

The major objectives of the policy include:

- facilitating accessibility to serviced land and housing for EWS and LIG
- land assembly, development and

disposal to be encouraged by both private and public sectors

- forging strong partnerships between public, private and cooperative sectors

- creating adequate housing stock both on rental and ownership basis
- using technology to modernise and enhance energy and cost efficiency, productivity and quality.

JnNURM (BHSP, IHSDP): Basic Services for Urban Poor (BHSP)

This scheme is managed by the Ministry of Urban Development. It seeks to

provide seven entitlements or services – security of tenure, affordable housing,

water, sanitation, health, education and social security to low income segments in the 65 mission cities.

Integrated Housing and Slum Development Programme (IHSDP)

This programme aims to have an integrated approach in ameliorating the conditions of the urban slum dwellers that do not possess adequate shelter

and reside in dilapidated conditions.

The scheme is applicable to all cities and towns as per 2001 census except cities/towns covered under BSUP. The sharing

of funds would be in the ratio of 80:20 between Central Government and State Government/ULB/Beneficiaries.

Interest Subsidy Scheme For Housing The Urban Poor (ISHUP)

This scheme facilitates the provision of housing for the EWS and LIG in urban areas. It allows provision of interest subsidy to EWS and LIG segments to

enable them to buy or construct houses. The scheme encourages poor sections to avail loan facilities through Commercial Banks/HUDCO for the purpose of

construction of houses and avail 5% subsidy in interest payment for loans up to INR 1 lac.

Rajiv Awas Yojana

Rajiv Awas Yojana (RAY), launched as a Centrally Sponsored Scheme (CSS), to be implemented in Mission mode during 2013-2022 for the slum dwellers and the urban poor envisages a 'Slum-free India' by encouraging states and

union territories to tackle the problem of slums in a definitive manner. RAY envisages integrated development of all existing slums, notified or non-notified, with development, improvement and maintenance of basic services

to the urban poor, including water supply, sewerage, drainage, solid waste management, approach and internal roads, street lighting, community facilities such as community toilets and baths, informal sector markets and livelihoods centres.

External Commercial Borrowing For Commercial Housing

Under the Union Budget 2012-13, External Commercial Borrowing (ECB) has been allowed for affordable and low-cost housing. This has been done to ensure a lower cost of borrowing for

the segment. Under the norms, ECB may have to be routed through the National Housing Bank (NHB), which could act as a centralised mechanism to help small developers avail the facility. The

government would also allow developers to raise such debt only for projects where a significant portion of units (75-90%) are reserved for the LIG and EWS State Sponsored Initiatives.

Challenges - Hovering Drag Factors

While the joint efforts of the Government and the RBI to boost affordable housing have fostered positive results, there are various factors affecting the pace of affordable housing development in India, mainly by restricting private sector participation:

- Unavailability of land at a reasonable cost
- Lack of Financial support from commercial banks for Developers
- Suitable financing options for beneficiaries who predominantly work in informal segments
- Lack of awareness amongst the intended beneficiaries
- Delay in Approvals
- Construction costs and lack of skilled workforce
- Lack of suitable mechanisms for maintenance
- Lack of Transparency in the system

Recent Developments

Introducing catalysts to the sector

The real estate sector is a major component of the Indian economy. The real estate sector contributed to 6.3% of the GDP in 2013-14, at an estimated 3.7 lac crores and employed about 7.6 mn people*. Housing is the largest

component of the financial as well as the construction sector**. A thrust on Affordable Housing will not only lead to better quality of life, but also significantly provide a boost to the GDP of the country. Recognizing this, the Government

has introduced new schemes that promise better opportunities for faster development of the sector via catering to the interests of all stakeholders including private developers in play.

Pradhan Mantri Awas Yojana (PMAY)

While efforts to provide low-cost housing have been made for many years, the PMAY launched in 2015 provides a fresh impetus. The PMAY-Urban (PMAY-U)

subsumes all the previous urban housing schemes and aims at 'Housing for All' to be achieved by the year 2022. Housing shortage of 20 mn is envisaged to be

addressed through the PMAY-U. The mission has four components:

(i) In-situ slum redevelopment (ISSR):

This uses land as a resource. The scheme aims to provide houses to eligible slum dwellers by redeveloping the existing slums on public/ private land. A grant of INR 1 lac per house is provided by the central government to the planning and implementing authorities of the states/UTs under this scheme.

(iii) Affordable housing in partnership (AHP):

This aims to provide financial assistance to private developers to boost private participation in affordable housing projects; central assistance is provided at the rate of INR 1.5 lac per EWS house in private projects where at least 35% of the houses are constructed for the EWS category.

(ii) Credit-linked subsidy scheme (CLSS):

This scheme facilitates easy institutional credit to EWS, LIG and MIG households for the purchase of homes with interest subsidy credited upfront to the borrower's account routed through primary lending institutions (PLIs). This effectively reduces housing loan and equated monthly instalments (EMI).

(iv) Beneficiary-led construction or enhancement (BLC):

This scheme involves central assistance of INR 1.5 lakh per family for new construction or extension of existing houses for the EWS/ LIG.

*Source: CREDAI, 2013

**Source: High Level Task Force on Affordable Housing for All, December 2008, p. 6



The central government's aggressive push to affordable housing is evident from the three-fold increase in the stock of houses completed under PMAY-U since April 2017.

| As on | Project proposal considered | Financial progress (crore) | | | Physical progress (numbers) | | |
|---------------|-----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------------|------------------|
| | | Investments in projects | Central assistance involved | Central assistance released | Houses involved | Houses grounded for construction | Houses completed |
| Jan 3, 2017 | 2,691 | 72,030.87 | 19,632.58 | 4,463.70 | 13,28,295* | 2,13,187 | |
| April 3, 2017 | 3,735 | 95,660.05 | 27,879.15 | 7,820.10 | 17,73,052 | 5,35,769 | 92,308 |
| July 31 2017 | 5,147 | 1,27,480.16 | 37,270.84 | 11,451.89 | 23,92,061 | 9,93,278 | 1,57,106 |
| Oct 3, 2017 | 5,974 | 1,54,180.15 | 44,278.49 | 12,065.85 | 28,57,321 | 11,50,783 | 2,00,096 |
| Dec 4, 2017 | 6,671 | 1,72,293.56 | 49,537.19 | 12,764.47 | 31,99,267 | 14,08,537 | 2,88,963 |
| Mar 5, 2018 | 8,341 | 2,25,219.26 | 62,463.93 | 13,507.22 | 40,62,364 | 17,99,159 | 3,39,866 |

Note:* includes EWS. Source: Ministry of Housing and Urban Affairs (MoHUA)

As per the Ministry of Housing and Urban Affairs, a total of 2,97,183 housing units are occupied by beneficiaries as on March 2018. The housing shortage, earlier projected at 18.78 million in 2011, has been revised downwards to about 10 mn units as of 2017 through subsequent assessment carried out by the MoHUA. This comes with the assurance of provision of housing for all by 2022, in alignment with the PMAY-U programme objectives.

Provisions In The Union Budget 2017-18

The Union Budget 2017-18 announced a number of measures to boost affordable housing:

- Granting infrastructure status to affordable housing;
- Increasing the time for project completion to affordable housing promoters from earlier three years to five years;
- Providing a year's time to developers to pay tax on notional rental income on completed but unsold units;
- Reducing the tenure for long-term capital gains for affordable housing from three to two years;
- Revision of the qualifying criteria for affordable housing from saleable area to the carpet area;
- Announcement of a new CLSS for the MIG with a provision of INR 1,000 crore;
- Re-financing facility by National Housing Bank (NHB) for individual loans for the affordable housing segment.

Foreign Direct Investment (FDI)

The government more than halved the minimum built-up area requirement for FDI in construction to 20,000 sq m from the earlier 50,000 sq m and eased FDI norms in the construction sector in October 2014. Although 100% FDI has been allowed in townships, housing and built-up infrastructure and construction developments since 2005, only INR

113,355 crore (2000- 2015) had flowed into the sector, a relatively small amount compared with some of the other sectors. While the sector has huge potential for foreign investment, the flow was about 10% of total FDI inflows into the country. Now, projects that commit at least 30% of total cost for affordable housing would be exempt from the minimum built-up area

and capitalisation requirements with a minimum three-year lock-in period. In a recent slew of changes, the government further relaxed the exit requirements for investors, wherein the Indian investee company would be permitted to exit once the lock in period of three years is over.

RERA

While the availability of low cost credit is driving the demand for affordable housing, policies like Real Estate Regulatory Authority (RERA) Act may

infuse fresh buyer interest in the reality sector via facilitating joint development agreements with revenue share, increased land transactions with

distressed asset owners selling land parcels to larger developers, timely delivery of projects, consolidation in the developer industry, etc.

New Schemes & Their Implications - Recent Trend in Housing Affordability

These measures encourage developers through several incentives, subsidies, tax benefits and most importantly, institutional funding and are thus likely to spur growth in the affordable housing segment in India.

Affordable housing reflected a growth of 27% between January to September, 2017 (y-o-y) compared to an overall residential housing contraction of 33%. That is possibly a result of the

mission-mode implementation of the PMAY-HFA; affordable housing's new found infrastructure status; as well as the much-improved inflow of formal credit (NBFCs and banks) to the segment. Affordable housing finance is estimated to be a 6 lakh crore business opportunity by 2022, by when the Government seeks to achieve housing for all citizens.

The Government has launched a number of initiatives to boost affordable housing

across the country. Statistics show a sharp increase in loan disbursements and launching of new projects in the segment in 2016-17. Despite this, there was an increase in non-performing home loans, particularly in the lower slabs of housing loans. The Credit linked subsidy scheme proved to be quite effective in improving the affordability factor among the Economically Weaker Section.

New launches in the residential sector

The share of housing supply in the affordable housing segment with capital value below INR 4,000 per sq ft has

increased to 28% in 2017 from 23% in 2016, out of the total supply. Maximum new launches witnessed in the affordable

housing range shows the appetite for affordable homes though there is an overall dip in the Y-o-Y supply.



Public Private Partnerships (PPP)

in Affordable Housing

Affordable housing is an issue that several countries are taking stock of, across the globe. Having taken the centre stage in today's world characterized by fast-paced development, innovative financial models in the sector has a long way to go before one can bridge the ever-widening gap between demand and actual supply world over.

The real estate sector in India underwent considerable changes post the global liquidity crisis. Downturn and liquidity crunch forced developers to adopt a two pronged strategy - smaller units and at lesser prices. This oriented developers to focus on the Affordable Housing segment, which has become the buzz word in the real estate market over the last few years.

During 2009-12, real estate developers in the country launched projects in the affordable segment across cities, with units priced between INR 5-10 lac (USD 10,000 - 20,000).

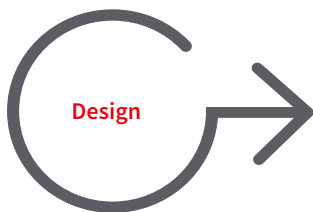
The fundamental strategy that PPP's revolve around as an implementation strategy for affordable housing is to combine the strengths of the private sector with those of the public sector in order to overcome challenges and in turn achieve superior outcomes. The Central Government has introduced an array of strategies and development mixes in the segment to attract private players. These implementation measures allow developers to reap higher benefits while producing good quality, low cost housing

with basic infrastructure with the aim of bridging the imbalance between supply and actual occupation and ownership.

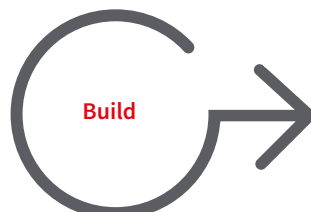
The new PPP policy for affordable housing, introduced in September 2017, allows extending central assistance of up to INR 2.50 lac per house to be built by private developers even on private lands besides opening up immense potential for private investments in affordable housing projects on government lands in urban areas. The other PPP model introduced extends central assistance of about INR 2.50 lac per each house as interest subsidy on bank loans as upfront payment under the Credit Linked Subsidy Component (CLSS) of the Pradhan Mantri Awas Yojana (Urban).

6 PPP options developed for development of Affordable housing on Government land include:

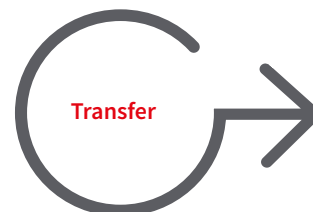
1. Design Build Transfer



- Private Developer will design the housing units taking into consideration minimum space and infrastructure requirements for quality housing units



- Land Provided by Government for construction
- Based on least cost of construction

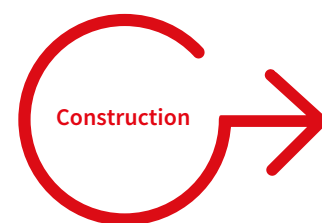


- Developer will transfer constructed units to Public authority
- Payment will be made to developer as per construction phase
- Buyers to pay to the Government

2. Mixed Development Cross-subsidising



- Government to allot land
- Cross - subsidize costing from revenues from high end residential / commercial development

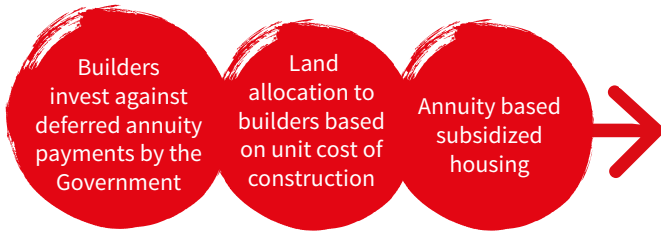


- Private developer to construct on allotted Government land based on housing numbers

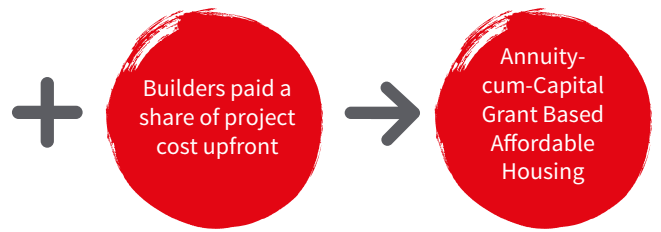


- Product mix result - Enhanced quality of housing, provision of basic infrastructure, locational advantage

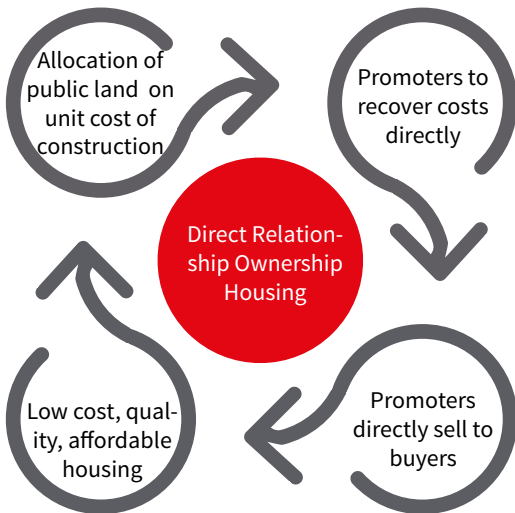
3. Annuity based subsidized housing



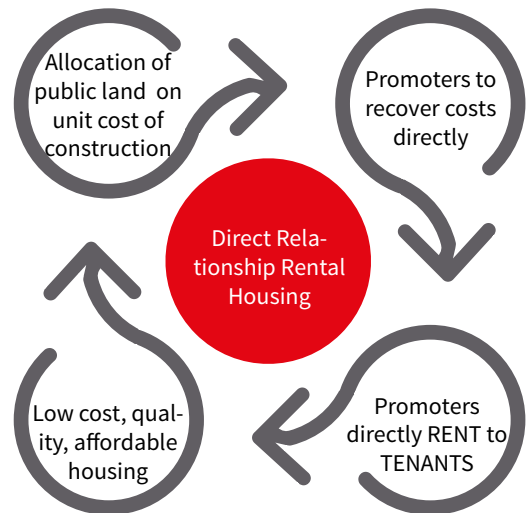
4. Annuity-cum-capital grant based affordable housing



5. Direct Relationship Ownership Housing



6. Direct Relationship Rental Housing



In order to attract private players to achieve a faster pace in development of the sector, the Government has taken the following initiatives:

- Status of infrastructure accorded to affordable housing

- Focused institutional financing to attract private players
- The opening of the External Commercial Borrowing (ECB) route
- Increase in size of carpet area (from 30 and 60 sq m built-up area to 30 and 60 sq m carpet area)

- Relaxed period of project completion from 3 years to 5 years along with access to more funds at lower costs and other benefits to the segment

Successful PPP Models In Affordable Housing - International Trends

Exploring successful partnership models.

1. National Housing Trust Initiative (Scotland):

This emerged as the first substantial output from the Scottish Futures Trust, set up by the first SNP government as a not-for-profit alternative to PFI. In part, a solution to unsold partly completed private sector sites, the original NHT model was based on a joint venture between councils and private developers. Funded by loans from the councils, alongside private sector loan finance and equity, this joint venture offers intermediate rented property with

starting rents for the first let of each NHT home being set at or below local housing allowance ceilings. After five to ten years the properties will be sold, with the sales proceeds being used to repay loans, recoup any calls on the Scottish government guarantee (see below) and potentially earn a return to the private sector on its equity investment. The principal risks to the council partner – void loss reducing rent and capital loss on resale – are covered by a Scottish

government guarantee (typically priced at around £2,500 per unit). The first round of procurement under the original model is delivering over 600 affordable units across Scotland. A second round of procurement is underway and the initiative has also been expanded with the introduction of a version specifically for housing associations, which includes flexibility for participating housing associations to retain stock indefinitely.

2. Rettie's Resonance (Scotland):

The Scottish property company Rettie's proprietorial Resonance model is established with several social landlords across Scotland. It works by a developer selling new properties for affordable rent to a social landlord but with land costs

deferred till the properties are ultimately sold after a period of years. The added value is that the social landlord will keep a minority share of the units in perpetuity. The risks to the housing association are reduced, for example, in the Edinburgh-

based project by a fixed rental risk contingency provided through City of Edinburgh Council's affordable housing funding and agreed with the Scottish government.

3. Welsh affordable homes limited liability partnership (Wales):

The Welsh Housing Partnership combines public funding (government grant), support from a number of Welsh housing associations and loans from the Principality building society. An example of the approach, creating special purpose vehicle is the Ely Bridge scheme in Cardiff, which will generate 700 new homes, 400 of which will be at social or affordable rent levels. The project was initiated by Principality building society and would involve 300 units for sale, 300 intermediate rent and 100 for social rent, as well as a school, offices for

rent and a riverside park in Cardiff. The affordable housing will be managed by a community-based housing association with rents at or below local housing allowance ceilings. The project would not involve housing grant but does involve cheap public land and a £6 mn repayable loan. Instead, its innovative financing and ownership model would be based around a not-for-profit social enterprise company that would develop the site formed as a partnership between the Welsh government and the Principality building society. A repayable loan from the Welsh

government's Economic Stimulus Fund will help with decontamination. The proposal would see the company wound up on the final stage of development and the properties transferred into an investment company who would, in turn, lease the rental component to a social landlord who would manage and insure the properties. Profits on the sale of land for open market sales would be reinvested either in other sites for social / affordable housing or to help increase the volume of the model.

The section above reflects that successful affordable housing projects revolve around the following key success factors in plugging the housing deficit through innovative implementation models. These when achieved will result in a smoother, more accessible market for the sector.

Key Success Factors - Plugging the housing deficit through innovative implementation models



Inclusiveness . Equity . Environmental Sustainability . Transparency

Innovative Schemes

A Different Perspective To Affordable Housing

The following international policies have potential to be replicated or altered for adoption into the Indian context.

The Spanish VPO ('officially protected housing') developer/occupier new supply subsidy

This has provided scale, responsiveness and efficient subsidy. Since 1978, VPO has added more than 3 mn units to the stock. The schemes provide a subsidy to the developer (private, public, union, etc.), which is then passed on, usually in the form of a mortgage, to the resident on innovative financing of affordable housing. A rental version also operates. The home-ownership element is the largest and most well-established part

of the VPO scheme. The key subsidy is cheap land, which is usually provided by the municipality. Developers tender to build a certain number of houses on the site. The development is financed by a mixture of deposits from prospective purchasers (20%) and banks. Individual purchasers may gain a subsidy for the down payment, which varies according to income (inversely) and number of children. Purchasers are normally

selected by the developer using lists of eligible households provided by the municipality. VPO housing may be resold at any time without the loss of the subsidy embedded in the land, but the other subsidies must be returned in full if the property is sold within ten years. After twenty years, there is no obligation to return any subsidy.

The Irish model of private renting with a discounted long-lease rent:

This addresses work incentives and augments affordable supply by binding private landlords into long leases and sub-market rents. This model has grown quickly in Ireland and may act to limit future social security expenditure. The Rental Affordability Scheme (RAS) applies to unemployed people who live in the private rental sector and have received RS for eighteen months, that is, are

long-term unemployed. At this point, the local authority reviews the case and inspects the accommodation. If its quality is adequate, and the landlord is willing to cooperate, the tenant may be transferred into the RAS scheme in situ. In the case of the private sector, the local authority aims to negotiate an agreement with a private landlord to lease the accommodation for up to ten years in return for a discounted

rent, which is 8% lower than the market rate. In return, the local authority takes responsibility for letting the property and collecting the rent. If the property becomes void, the local authority still pays the rent. The landlord retains responsibility for maintenance. Rent reviews are built into the lease, as are arrangements for ending it.

The following projects showcase innovative implementation strategies executed on PPP mode

Project

Partnering with the Minha Casa, Minha Vida program of the Brazilian Government (2009)

Fez tá Pronto Construction System is working with the Brazilian government's social housing program to provide homes to the lower income groups.

Innovative component

Under its Rent-to-Own scheme the Minha Casa, Minha Vida programme provides subsidies for three different income groups.

Fez Tá Pronto focuses on building houses for the lowest income group;

families earning between 1 to 3 times the national minimum salary. This is where the majority of Brazil's housing demand is found. Targeting this segment is possible by combining the financial support of the Minha Casa, Minha Vida

Program with competitive construction materials and technology. Fez Tá Pronto's system is based on patented gypsum plaster blocks, a technology allowing five times higher construction productivity with high-quality standards.

Outcomes and Impact

Fez tá Pronto has completed five developments in the state of Rio de Janeiro and is expanding.

Project

Selling directly to the Urban Poor, Elang Group, Indonesia

Elang Group has grown from a start-up with a vision to sell affordable homes, to a profitable company in the affordable housing segment.

Innovative component

The business model is based on sales of standardized units directly to the homeless. The customers represent a diverse range of poor households including factory workers, workers' in informal sectors, as well office workers. In the beginning the Elang Group mainly focused on subsidized low-cost housings.

One key success factor for the business model of Elang Group is a strong cooperation with a local bank. Through this partnership, Elang Group sells subsidized low-cost housing for a fixed interest of 7.25% per year. This makes the homes available for customers with incomes from 170 to 330 USD a

month, who each pay a fee of around 60-85 USD a month for 15 years. The model also includes identifying material suppliers and labour from the target population thereby ensuring community participation and a win-win partnership.

Outcomes and Impact

Seventeen low-cost housing estates are operating in the region around Bogor, West Java. The company has built and sold nearly 7000 housing units and employs 300 workers.

Project

Greenfield affordable housing projects by Ansaar homes, Pakistan

Ansaar Management Company combines incremental financing and long-term engagement to ensure cash flow and return-on-investment

Innovative component

The approach involves building communities in batches of housing units. The company is engaged throughout the whole development and construction phase and stay engaged for five years in order to support community development and hereby increase the value of their investment. The primary business model is based on the fact

that occupation of a critical mass of homes will have a positive impact on the price of the remaining houses in a development. Hence, 51-70% of the housing units are sold at cost rates, under the condition that residents cannot sell, rent, or leave the unit vacant for a period of five years. This ensures that the community constitutes a sustainable

and well-functioning social unit from the beginning. As a result of the investment in community development, the price of the remaining housing units can increase 2-3 times. The profit that derives from this price compensates for the zero-margin on the first housing units.

Outcomes and Impact

So far Ansaar Management Company has been involved in four major housing projects in Pakistan ranging from 100 to more than 2000 units.

Project

Affordable Housing Development in Vatva, Ahmedabad by Foliage Real Estate Developers Ltd.

The development of infrastructures like sewerage, drainage, water supply, electricity and mass transport is the responsibility of the ULB

Innovative component

423 housing units in 3 types of flats ranging from 297 sq ft to 730 sq ft will be developed. The project includes incorporation of green design concepts in all stages of development and electricity, sewage and drainage installations

- Secure Repayment: The MFIs play a key role communicating with the targeted customers
- Reduction of costs of construction materials by using alternative products, such as mud blocks
- Partnership with cement companies

- Cheap and standardized building
- Short construction time
- Targeted return is minimum 20% per annum

Outcomes and Impact

The apartments will be sold within the range of INR 3 mn to INR 6.5 mn, Lower margin but more volumes

Project

Rental Housing by MMRDA, Mumbai

The developer will provide more than basic facilities to the affordable segment

Innovative component

Model 1: Higher FSI upto 4 with TDR application on Private land: Out of the granted 4.00 FSI, 3.00 will be used for provision of rental housing, TDR will be applicable to the non-utilized balance FSI.

Model 2: Higher FSI up to 4 with no TDR on private land: Only 1.00 FSI will be used for rental housing. TDR transfer benefits will not be available to the developer.

Model 3: Higher FSI of up to 4 on MMRDA

Government Land: Out of the granted 4.00 FSI, 3.00 will be used for the provision of rental housing, while 1.00 will be used for commercial development

Outcomes and Impact

Proximity to affordable transportation, more number of rental housing units via model 1, commercial units via model 3 will benefit occupants as well as Govt. (revenue for subsidizing more number of rental housing units).



Way Forward

Designing and implementation of housing solutions across the country involves making choices and trade-offs between a plethora of considerations. In order to efficiently utilize the current

schemes and create models based on best practices in the market, parameters such as innovation in building material and technique, quality, safety and sustainability must be considered in

parallel with key factors such as cost and affordability, suitable location and infrastructure. Active participation from private players in the market may be achieved via:



Choosing the right building material and technique of construction

Hi-tech does not always translate to high cost. Advanced materials now serve as a cost-efficient option. Awareness among the builders as well as the home buyers

and the target population is a must. Measures to warm up the market and beneficiaries to the benefits (including safety) of opting for pre-fabricated

construction as a solution for quality homes must be introduced in order to achieve low cost, safe, quality units at perceived deadlines.



Balancing safety and costs

Design and construction impact the safety profile of a structure. Policy makers, implementation agencies and developers must pay heed to factors such as skill level of labour, budget and deadlines, mitigation measures for foreseen risks

and natural hazards, environmentally friendly solutions including the use of local material vs production of alternative sustainable material, etc. while arriving at the cost implications of the planned projects. This practice will cater to

the development of streamlined and standardized models for implementation of quality affordable housing clusters governed by realistic budgets, and construction timelines.



Standardized business models for the different realms of buyers

It is imperative to establish clarity on the layers of target customers within the society for whom the homes are being designed and developed. Developers need to focus on developing

- Tailor made business models

pertaining to single or multiple segments of the income groups,

- Strategies for choosing the right segment,
- Parameters for identification of direct customers, etc. in order to gauge the market and play an effective role in

the sector.

Innovative alterations to the current business models of development will usher in the much required push the sector currently needs.



Financing

Lack of financial literacy, low and unstable incomes, combined with a lack of collateral often make it difficult for the low income group to engage directly with financial institutions. Re-measuring affordability region-wise, and bringing down the financial threshold via incremental financing, rental solutions, etc. must be looked into in order to develop customized financing schemes

for the urban poor. Effective financing through micro mortgages by utilising the reach of Self-Help Groups (SHGs) and other innovative financing mechanisms would ensure that housing finance is available to large sections of LIG and EWS populations. Tapping into resource pools through the option of convergence with ongoing Central and State Government schemes, as introduced by the Smart

Cities Mission will be beneficial to the sector in the long run. Development schemes must consider promoting similar models of funding to meet the housing needs of the country. Current financing arrangements, along with new alternative financing options, must be made available for access by those belonging to the lower realm of the income group.



Strong Value Proposition

Producing affordable homes that serve the intent of the Government should involve factoring liveability parameters such as LOCATION (access to job, schools, healthcare, etc.), CONNECTIVITY (access to affordable transportation) and basic

infrastructure such as water supply, electricity and sanitation facilities. In order to understand the willingness to pay for the product, city leaders and developers must understand the opportunity cost for the people.

Understanding how the solution creates status and fulfils the aspirations of the target group can be important to strengthen the value proposition.

Best Practices

Best global practices point towards the practice of involving local communities with urban planning and housing. The expansion and growth of the sector is the need of the hour. Bridging the gap between supply (including unsold inventory), demand and actual sale or rental in the segment is dependent on the following factors:



Providing self-builders and building companies with access to good quality and affordable building materials



Developing building standards, for example in earthquake-prone areas, for the prevention of fires, etc.;



Providing sufficient financing mechanisms and fostering healthy competition among private developers in the market to keep costs under control;



And most importantly, making sufficient land available.

It must be borne in mind that planning mechanisms play a major role in ensuring sustained growth of the Affordable Housing sector. This is crucial for securing land for development and maximizing the outcomes of existing and envisaged

financial subsidies and incentives. Appropriate Industry norms and a regulatory framework need to be put in place to monitor development and standardize the outcomes. In the long

run, a more comprehensive set of policies that will address fundamental issues and market failures will allow better prioritization of resources towards those most in need.



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