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A vibrant, stylized illustration of a cityscape with various colored buildings (teal, orange, yellow, brown) and windows, serving as the background for the report cover.

# **AFFORDABLE HOUSING CLIMATE IN MUMBAI**

**REPORT 2018**

# PRELUDE

In India, the top 8 cities, which include NCR(National Capital Region), MMR(Mumbai Metropolitan Region), Bengaluru, Chennai and Pune, have remained the mainstays for economic development for a very long time and still continue to do so. The migration towards these cities has been growing at a significant pace. Spread across 4,354.50 sq km, MMR (Mumbai Metropolitan Region), one of the most populous urban regions in India has seen a 197 per cent population growth during the past 4 decades. The region supports a population density of 37,000 persons per km which is among the highest in the world. These numbers are subjected to grow further, if we could take into account the unregistered slum population. The above statistics makes is very easy to picture the strong housing demand that has been building up in the MMR.

On the other hand, owing to factors such as commercial importance and land crunch, the real estate prices in Mumbai region have soared aggressively. Hinterland micro markets such as Badlapur, Ambernath, Virar and Panvel which were once considered affordable are gradually entering the premium zones. The growing MIG (Middle Income Group), LIG (Lower Income Group) and EWS (Economically Weaker Sections) population as well the real estate prices have culminated into a big demand-supply gap.

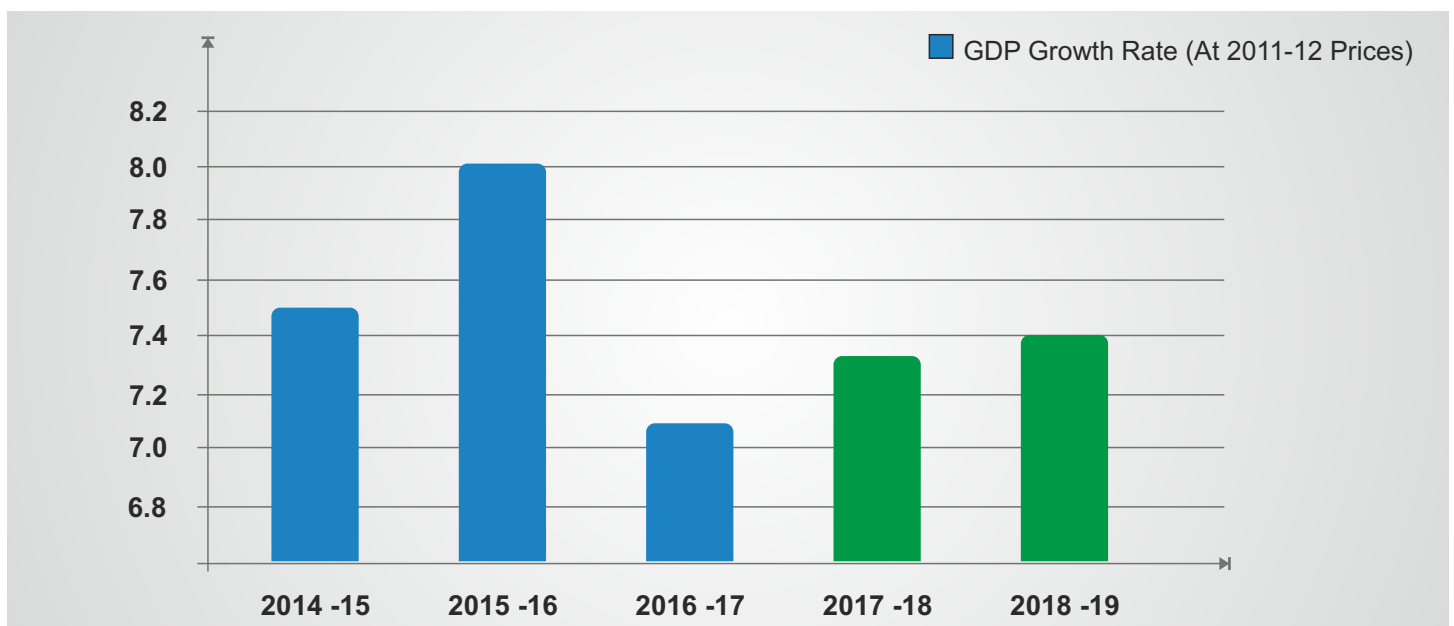
Developers working in the affordable segment have been putting strong efforts towards bridging this gap. Though it is equally true that the affordable housing developers are looking to capitalise this gap, operating in this segment needs dedication, high risk appetite and an intent to serve the community. Owing to the relatively lower profit margins, the developers have to work very hard in ensuring the volumes. Unlike the regular projects, the success of an affordable housing project depends a lot on the smart design, discipline and technology. Since 2016, the affordable housing segment has witnessed significant policy level support from the government. The most notable being the grant of 'infrastructure status'.

In this view, the white paper intends to compare the traditional challenges the industry has been facing and how well the new policy announcements correspond to them.



# GENERAL ECONOMIC SCENARIO

## GDP Growth Rate (At 2011-12 Prices)



GDP of India is expected to grow by 7.3 % and 7.4 % in 2018 and 2019 respectively. Housing industry contributes 5 to 6 %, also needs to grow as a sector to keep the GDP rolling at a moderate pace.

## Population

Population annual growth is roughly at 1.25% for 2015 and 2016.

## Urbanization

Year	Growth Rate
2015	32.75%
2016	33.14%

The population and urbanization data indicates the mounting pressure on the urban cities of India. As per a UN report, this pressure is only going to increase and Indian cities would add 300 million urban residents by 2050.

## GENERAL ECONOMIC SCENARIO.....contd.

As the population increases, the pressure on land and corresponding housing is bound to increase! Housing being one of the fundamental human needs is a right that every citizen of any country deserves. Hence, government's mission of "Housing for all by 2022" was introduced.

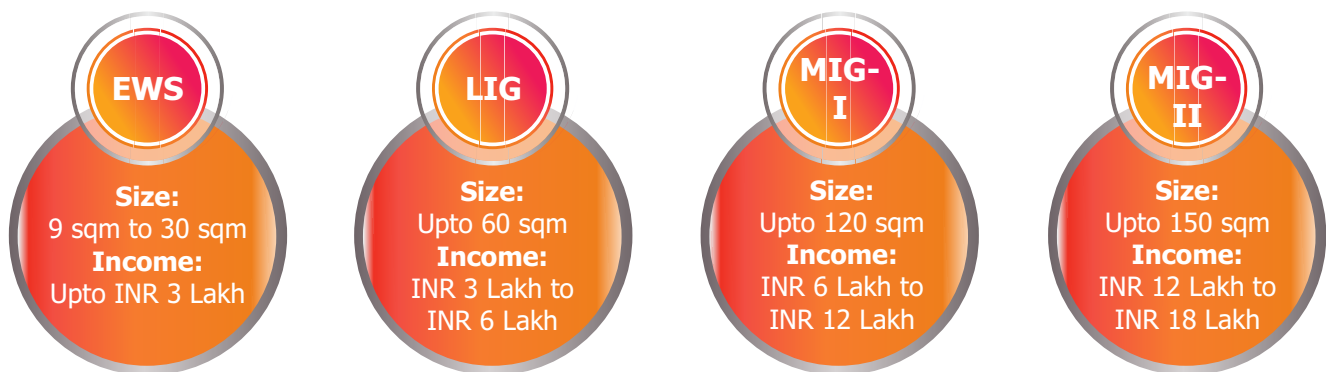
However, **the urban housing deficit as of 2015 is 18.78 million**. Current pace of development and increasing population is expected to expand the housing deficit in India. Majority of the housing deficit is observed in the EWS and LIG segments.

**To bridge this deficit, government is planning to construct 12 million housing units in urban area under 3 years and 10.2 million housing units in rural area till March 2019.**



# DEFINITION OF AFFORDABLE HOUSING

Affordable being a subjective terminology has different meaning for different entities. Even, developers follow their own version of affordable housing as per the local market dynamics. However, the sizes of affordable houses in India fall in a specific size range, in line with the government definition of affordable housing. As per the Ministry of Housing and Urban Poverty Alleviation (MHUPA), affordable housing is defined as per the following income group:



Some developers believe that affordable housing should be affordable for lifetime. The cost of maintaining the home, which depends upon the design and quality of the construction, is imperative for sustainable affordability. Apart from maintenance, the project should also have low living cost. Added cost and time to travel to work places and other frequently visited places can reduce the affordable quotient of a home.

“Finding a house with perfect location, which ticks all the check boxes, is rather mythical in today's times. However, an affordable house is the one which makes optimum usage of the available resources and offers a value proposition which combines affordable price as well as affordable cost of living.”

# TIMELINE OF AFFORDABLE HOUSING POLICIES

The global housing industry has evolved tremendously since its inception, in terms of liveability, technological advancements and innovations. High rise residence and luxury housing are apparent products of the same. However, for a major chunk of the world population, housing still remains a primitive and unfulfilled need, especially in developing countries such as India. The housing deficit figure of 18.78 million, discussed above, emphasizes this fact. Hence, both the central and state government collectively are increasing their focus on providing affordable house to each and every individual.



1952

**Subsidised Housing Programme** - First nationwide programme targeted towards industrial employees and Economically Weaker Sections. In this the central government provided subsidy as well as loan for the land and construction of houses.



1954

**Low Income Group Housing Scheme** - In this scheme, the government used to provide loans up to 80% of the cost of house to the citizens with income less than Rs. 6,000 per annum and also to some other specific entities.



1956

**Slum Clearance and Improvement Scheme** - As the name suggests, this scheme was targeted for sprawls removal by providing homes at affordable rents.



1959

**Middle Income Group Housing Scheme** - Financial assistance in terms of loan to individuals and co-operatives were given to construct homes and Village Housing Project scheme. It was introduced to promote rural housing and improve infrastructure and overall development.



1970

**Creation of HUDCO (Housing and Urban Development Corporation)** - Government's nodal agency for the promotion of "sustainable habitat development to enhance the quality of life" by providing loans to LIGs with longer repayment period.



1977

**Formation of HDFC** - Housing Development Finance Corporation was incorporated in 1977, to provide housing financing solution to individuals.



1985

**Indira Awas Yojana** - Sub-scheme of Rural Landless Employment Guarantee Programme aimed at providing houses for families below the poverty line in rural areas.

## TIMELINE OF AFFORDABLE HOUSING POLICIES... Contd.

1987

**Establishment of NHB(National Housing Bank)** - An apex housing finance institution set up by RBI to promote housing finance and focus on providing impetus to the housing sector.

1990

**Nehru Rozgar Yojna's Scheme of Housing and Shelter Up gradation** - It was a part of Nehru Rozgar Yojana aimed at providing housing schemes specifically to the urban poor.

1998

**Formation of NHHP (National Housing and Habitat Policy)** - It was introduced with a primary objective of having housing stock for both ownership and rental model especially for EWS and LIG groups.

2001

**Valmiki Ambedkar Aawas Yojana** - This scheme was introduced to provide assistance in building as well as upgrading the houses of the slum residents.

2009

**Rajiv Awas Yojana** - It was introduced with the aim to create a slum-free India by providing property rights to slum dwellers.

2014

**Ease of FDI in construction sector** - To provide low cost housing through foreign technology and experience, the government allowed 100% FDI in construction under automatic route in completed projects and also relaxed the exit clause of an overseas investor.

2015

**Pradhan Mantri Awas Yojana Scheme in June 2015** - 'Housing for all by 2022' launched by the Prime Minister of India on June 17th for providing Credit Linked Subsidy, Partnership in affordable housing, etc.

2017

**Infrastructure status to affordable housing** - Government announced infrastructure status to the affordable projects to provide access to institutional credit and low cost of borrowing.

**Public-Private Partnership for affordable housing** - Government introduced PPP policy on September 21st that includes various model with different assistance. One of them is to provide central assistance of Rs. 2.50 lakh to every house, even on the private lands

**Govt hikes carpet area for affordable housing** - The carpet area for the MIG-I and MIG-II group under PMAY scheme was raised from 90 to 120 sq. M and 110 sq. mtr to 150 sq. mtr respectively in November


2018

**GST on affordable and low-cost housing units lowered** - GST on the affordable under construction property was reduced from 12% to 8%.

# KEY AFFORDABLE HOUSING POLICIES IN MAHARASHTRA




**1.** For Joint partnership, MHADA (Maharashtra Housing and Area Development Authority) had announced a FSI of 2.5 in case of constructing affordable houses with private land owner or private developer.




**2.** In order to promote affordable housing, Maharashtra government had made it mandatory for developers to reserve 20% of the total area of the housing project for projects more than 4000 sq m. To accommodate developers, 20% extra Floor Space Index would be granted for construction.



**3.** Maharashtra government had decided to place a stamp duty of only Rs. 1000 per EWS.



**4.** State will setup the Maharashtra Affordable Housing Development Corporation with the intention of developing large scale affordable housing projects with a target of 20 lakh Houses by 2022.



**5.** The state government has allowed construction of houses on farmland with a FSI of 1, only for the Economically Weaker Section (EWS).

# THE RECIPE OF AFFORDABLE HOUSING

*M*aking an affordable housing project needs a bit more than the usual level of planning and execution techniques. Affordable housing is a science in itself, which combines the concepts of engineering, financial planning and economics. Furthermore, the focus is not just the present cost of developing the project but also lower lifetime maintenance cost.



Let us take look at some of the key methods:

## **Financial Discipline:**

One of the most important aspects an affordable housing developer needs to address is the financial discipline. The developer should have a robust financial plan, much before he begins the development. During the execution stage, the developer needs to maintain a proper book of account and follow strict adherence to the payment schedules whether payable or receivables. Lack of financial discipline can put the entire project schedule and project quality in jeopardy.

## **Low cost material:**

One of the most effective solutions in reducing the cost of materials is maximizing the use of locally available material. Alternative construction materials, which are made from cheap recycle material can bring an effective price reduction include. Some of the low cost material which provide similar strength but at much lower price such as fly ash bricks, concrete bricks recycled steel, Ferro cement etc.

## **Construction techniques:**

Effective construction techniques can lead to a considerable reduction in construction time and cost. Aluminium form technique is one of the most popular technologies used in Mumbai. This technology uses custom made aluminium formworks to cast the components of the building. The technique can bring down construction time by 50 per cent with highly accurate output.

Another important technology is the prefabrication of building components where walls, slabs, beams and columns are fabricated in a factory and assemble together at the site. Like aluminium formwork, prefabrication technology has also proved to be highly time effective. The technology also reduces the requirement of a considerable work space at the site.

## THE RECIPE OF AFFORDABLE HOUSING.....contd.

### **Design:**

A well designed housing project can bring down considerable capital as well as maintenance cost. A simple design is key to cost effective housing. A simple rectangular plot has a higher usability as compared to a irregular plot. A design should make maximum use of the natural topography of the plot. Taller the building higher is the per square feet cost of construction as well as the per floor time consumption. Complicated design elements such as domes and arches can add up unnecessary costs and are also difficult to maintain in the long term. The layout should be planned in such a way that it minimizes the requirement of pipelines, ducts and wirings.

In today's time, amenities like swimming pool, gymnasiums, mini-theatres have become very common. However, apart from initial cost these amenities are very expensive to maintain. Hence, affordable housing project should stick to bare minimum amenities. Another effective means of saving costs is adoption of energy efficient design and technique. It has been proven that projects with good green building rating save up to 35 per cent energy, providing the lifetime affordable quotient to the customers.



# THE PERILS OF BEING AN AFFORDABLE HOUSING DEVELOPER

Discussions with key affordable housing developers in the city revealed some of the most pressing issues the sector has been so far facing in the country. Until the overwhelming policy announcements of 2016, affordable housing was nothing more than an adjective. Despite its strong demand, affordable housing could never find a proper ground. The success of affordable housing projects, unlike an average priced apartment/flat/house, depends a lot on the financial discipline and stringent adherence to construction schedules.

Even a minute disruption in either of the two exerts a multiplying effect on the costs ultimately rendering the project unaffordable. Time delays in schedule results in the increased cost of borrowing and equity. Borrowing gets affected as the period for which the loan is taken gets extended and the interest charge paid on the same is substantial. Even, investors demand higher ROI (return on investment) as real estate project, by its nature has a long waiting time. These compounding effects of cost are transferred to customers, resulting in unaffordability.

However, till this point affordable housing was never granted special benefits in terms of tax waivers or subsidies or fast track clearances. Notwithstanding the challenges, the traditional affordable developers have survived the difficult times. They never got any special treatment from the government, but still managed to generate profits by employing best practices and techniques. It should be noted that there is a thin line between the definitions of truly affordable homes and low cost homes which are built with inferior quality with no consideration for legal compliance by one time developers/land owners. This report henceforth will avoid the latter kind and focus only on the former.

For purpose of simplification, we categorized affordable housing into two categories 1) near city centre 2) in the outskirts. Mumbai has been an ever expanding city where definitions of city centre and outskirts keep changing at a rapid pace. However, we will consider a generic scenario to explain the key challenges.



**DEVELOPERS  
ARE  
REQUIRED TO  
INCUR EXTRA  
COST ON  
INFRASTRUCTURE**

*T*his challenge is mostly relevant to projects which fall under category 2. In case of category 2, some of the locations are yet to become part of the nearest municipal corporation. These locations are usually isolated from the connectivity infrastructure and also lack basic facilities like water, connectivity, electrical and sewage system. As a result, category 2 projects are not readily liveable even after the completion of construction and handover.

In order to make their projects market-worthy, the developers are forced to build the infra at their own cost. This may also include setting up of the transportation services between the project and nearest railway or bus station. In case of an average sized project the additional cost can go up to 20 percent of the total project cost. Ultimately, the cost is recovered from the home buyers.

## THE PERILS OF BEING AN AFFORDABLE HOUSING DEVELOPER.....Contd.



### HIGHER LAND VALUES

*A* major cost component while developing housing projects is the cost of land, especially if the project is developed closer to the city centres. Owing to rapid population growth and development, Mumbai is left with very few land parcels. The only way in which land can be made available for a new residential project is through redevelopment of older housing or commercial properties. This coupled with its growing commercial importance has placed Mumbai land values among the costliest in the world. Land price comprise around 40 per cent of the total cost which leaves very little scope for economic construction techniques to bring down the cost. In this view, it is quite challenging to construct MIG housing and still be able to recover the cost. Only a very experienced developer with strong technical knowhow can achieve this feat.

*T*he affordable housing segment, as compared to rest of the housing sector, has higher sensitivity towards time delays. Under normal circumstances, approximately, 6-8% of the total cost of the project is incurred in approvals. Even slightest disturbance in timeframe can have a considerable rippling effect on the project budget. Beyond a point, the project is forced to forgo its 'affordable status'. The most crucial part of the project schedule is obtaining permissions and clearances.

Depending upon the site location, this process requires the developer to approach several independent authorities like the Municipal Corporation, Coastal Regulatory Authority, Fire and Safety department, Department of Forest, Airport Authority, and Railways among others. Owing to the involvement of so many authorities and jurisdiction a considerable time is consumed in identifying the list of permissions itself. Furthermore, each of such clearance/approval may need the developer to make multiple visits to office of the respective authority owing to stringent criteria.


As it has been mentioned earlier, despite of their importance to the society, the affordable housing developers did not enjoy any special status and hence had to go stand in the same queue as any other developer. The indefinite timeframes with respect to approval and permission have been one of the toughest challenges faced by the segment.



### OBTAINING PERMISSION AND APPROVAL



## THE PERILS OF BEING AN AFFORDABLE HOUSING DEVELOPER.....Contd.



### INCREASING COST OF MATERIAL

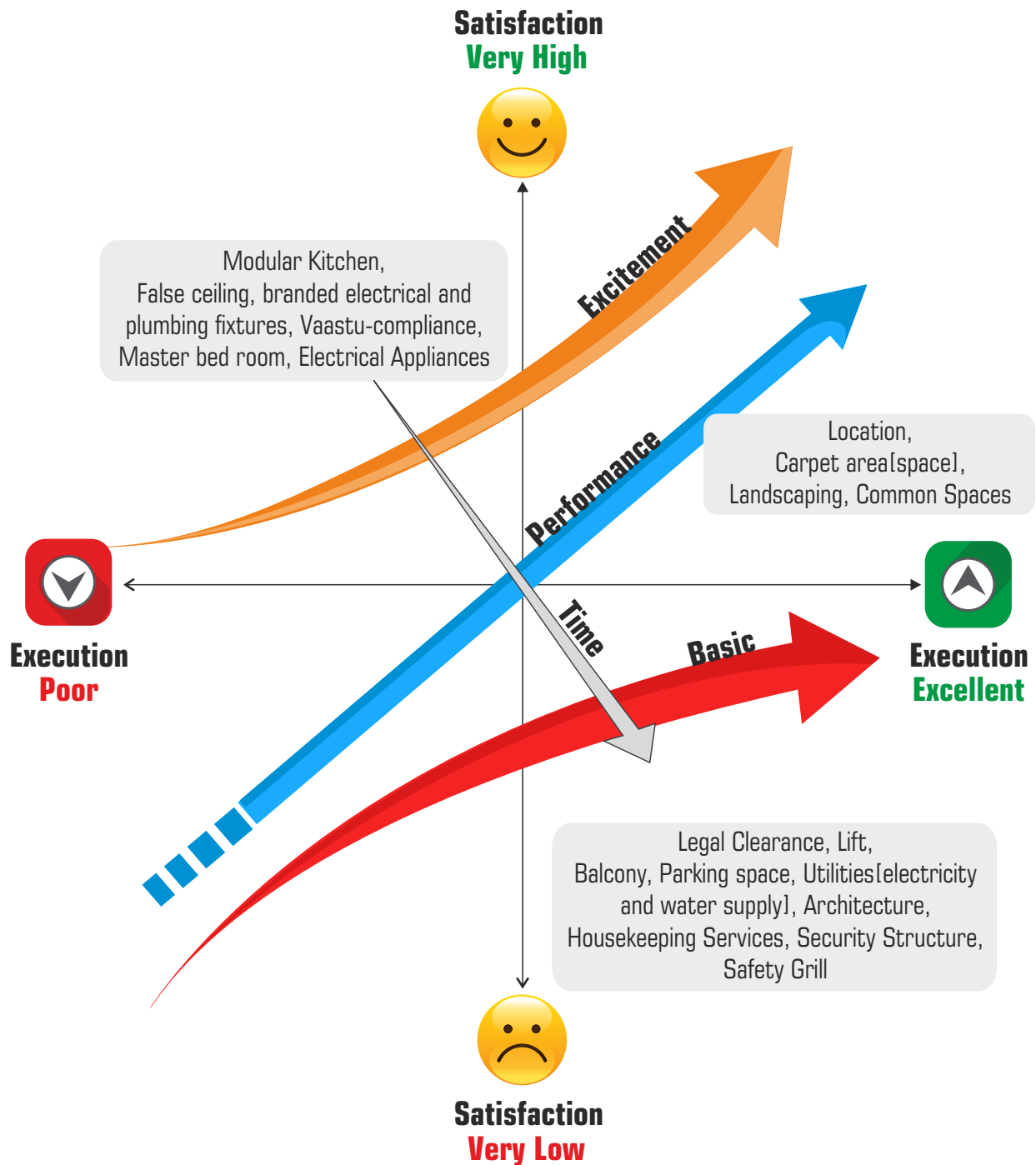
The cost of construction has been another area of concern. As per historical data, the price of construction materials such as cement, steel and sand have exhibited fluctuating price trends. Moreover, the availability of construction material like sand is subjected to irregularities which further add to the cost volatility. As per the construction cost index published by Construction Industry Development Council, the price of constructing a housing project has grown at a rate of 3% between 2012 and 2017. Though this cumulative number may not look insignificant, the Q-O-Q fluctuations are relatively high.

Apart from construction material, another barrier is the high cost of modern day techniques and equipments which can bring down the cost of construction. An example of this is the aluminium foam technology which reduces the construction time by approximately 25%. This benefit goes on increasing with the height of the building resulting into considerable savings in terms of labour cost, equipment leasing cost, interest cost, etc.



### GROWING HOME BUYERS EXPECTATIONS

With every passing day the definition of basic requirements keep evolving. What used to be an accessory/luxury a decade ago has now become a necessity. For example master bedrooms, vitrified tiles, French windows, kitchen trolleys, etc. now come under the definition of a basic affordable house. These increased expectation of home buyers has further pushed up the cost of developing an affordable housing. The same can be exemplified with the famous Kano model.



### Kano Model depicting the shifting preferences of affordable home buyers

Apart from these three variables, other variables of the Kano model pertaining to the affordable housing are -

- Reverse Requirements** : Luxury amenities or Shared services[garden, swimming pool, theatre, banquet halls, gym]
- Indifferent requirements** : Construction material and techniques, number of apartments and floors

# THE WAY FORWARD



Looking at the history of affordable housing policies in India, one can easily deduce that most of these policies were targeted towards providing subsidies to the home buyers in LIG and EWS categories. However, the recent policy announcements are focused towards empowering the affordable housing developers which is a very good sign. This has boosted the interest of developers towards affordable housing. The policy reforms have also started to reflect in form of capital infusion the segment is currently witnessing.

Recently, many of the Investors, International Corporation and Financial Institutes have committed their investment in affordable housing. Some of them were HDFC Capital Advisors creating a platform of \$ 1 billion, IFC & HDFC's partnered \$800-million fund to finance construction of affordable houses and Piramall's commitment of investments up to \$2 billion by 2020 in affordable and mid-income housing.

Going forward, the developer lobby is now eager to see the implementation of key policies like the PPP. Stake holders expect the following immediate reforms:

- Ease of doing business: single window clearance systems that can uncomplicated and fast track the approval and permissions stage.
- A clear definition and certification for affordable housing project to ensure removal of ambiguity and ensure that practical affordable housing projects get the proper benefits.
- A separate wing/team/RERA within the municipal corporations or other relevant authorities which are dedicated for providing clearances to the affordable housing sector.
- Create or support of infrastructure (roads, water connection, transportation, etc.) at undeveloped locations. Benefits such as tax waivers or subsidies to be provided to developers who develop such infrastructure at their own expense.
- Well defined provisions to make available unused land owned by government entities like railways and port for affordable housing development. Government has already initiated the process of land unlocking such as the recent initiative of Indian Railway Stations Development Corporation Limited to allow residential and commercial development on railway lands. This will also provide boost to rental housing.
- Provision of subsidies for construction materials and affordable construction technologies.

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