

# Housing Policy in India: Challenges and Reforms

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**Abstract:** The housing sector in India for several decades faced a number of setbacks, such as an unorganized market, development disparities a compartmentalized development approach and a different rent control system. Although the task represents an enormous challenge, but it also constitutes a great opportunity for developing countries economy. It attempts to distinguish the problem of the massive urban housing shortage that exists mainly in the Low Income Groups and Economically Backward Sections and provide low-cost housing choices that can be made available with proper policies by Indian Government. However, rapid urbanization has resulted in severe housing shortages in urban areas. This has also resulted in a rise in slums. Reforms introduced in the sector during the 1990s, however, have overturned the situation to a great extent.

After agriculture, the housing sector is the second leading employer in India over a growth of 30 percent in the last decade. The designing of a shelter policy, the organization of the housing finance market, the introduction of fiscal incentives, increased public investment, legal reforms and others initiatives have brought about a number of changes in the housing sector. The rapid growth of urban migration is putting an enormous strain on urban planners to develop an infrastructure in Indian cities. Interestingly, these changes have been concerned with both reducing the housing shortage and increasing the number of quality housing stock besides increased access to various other housing amenities like safe drinking water, good sanitation and household electricity.

However, the reform initiatives of the housing sector need to take deep roots and to go a long way to address the growing incidence of sub-standard and dilapidated housing stock for further minimizing the deprivations of housing amenities. In this paper, different government schemes are discussed with existing and new reforms of tax policies like REITs, GST, RERA and Benami Transaction Act. This paper considers a few policy Challenges & reforms options towards addressing the challenges of the housing sector.

**Keywords:** Housing Policy, Housing Policy, Housing Programmes and Policy Reform, Urban Housing

## 1. Introduction

Housing is an important economic good in the consumption basket of a household. As it relates to the living of human beings, it is tied to their security. A major development that took place in the early 1980s which affected the housing sector was the realization that housing was a basic and a merit good, and a prominent element of the social security under the welfare

framework of the state's responsibility. India has been witnessing several macro-economic changes that affect all sections of its economy after the adoption of liberalization policies in the early 1990s.

Cities are the engines of economic growth. Moreover, housing activity is tied with many other sectors of Economy, as well as the life stages of individual and his/her social network. Privatization of production of housing units in the owner- and rental-sectors, housing amenities, organization of the market-led housing finance system were the important changes brought into the housing sector during the period of economic reforms. However, given the short supply of housing, the privatization of housing and housing amenities in India faces a number of challenges. Although late in reaching the same realization, the housing policy in India has followed a similar approach in the housing development since the late 1980s largely due to the state's inability to meet the housing and amenities needs of the country.

The 12th Five Year Plan estimated the urban housing shortage to be 18.78 million. This figure is expected to increase in the years to come on account of rapid urbanization. Among all classes of cities, metropolitan cities, which already have a large population and a major share of total urban population, are experiencing faster growth. The Government of India has a vision to provide housing to all its citizens by 2022. In such a scenario, providing affordable housing is one of the major concerns of the Government of India. Due to rapid urbanization, Indian cities are witnessing an increasing divergence between the supply and demand for housing. In fact, the housing problem of the vulnerable sections and middle-income families is reinforcing the state's role in a more realistic way. The Economically Weaker Sections (EWS) and Low Income Groups (LIG) are the worst affected and as a consequence, depend on government support for housing.

India, the third largest developing economy in the Asia enjoys a unique position. India was one of the examples of a critical housing situation in the developing regions. Housing is one of the most important struggles in the developing nation and shortage in India has been a matter of serious concern for both Central and State Governments India's urban population has been increasing rapidly. It grew at a rate of 2.8 percent from 2001 to 2011. Housing activity is very closely linked to the

macro-economy. Provision of housing is not simply providing four walls and a roof but it also demands provision of basic amenities like water and sanitation, connectivity, electricity etc. The number of housing starts is the first leading indicator of economic growth. House construction activity constitutes a significant part of overall construction activity. The share of house construction in overall construction is around 60%.

## 2. Economic importance of housing

Housing constitutes an important element of human life which many aspire to achieve in their lifetime. Housing is one of the basic necessities of life along with food & clothing. It has the potential to contribute to a rise in national income, because of the linkages with various other sectors providing goods and support services. It also has the potential to add value over a longer duration even after house construction and because of this advantage it also contributes to the employment to a good extent. Different components of a house demand a variety of products supplied by other sectors and skilled persons, creating demand for a variety of goods and services, thereby generate greater employment. The economic importance of housing In India is reflected in its contribution to income and employment generation, and to capital formation. The indirect employment generation that takes place from backward linkages to the economy will be very high.

Housing and Urban Development sector has been a thrust area of economic planning in India. The share of Gross Capital Formation in Residential dwellings (GCFR) is around 12- 13 per cent of capital formation and the GCFR/GDP ratio has been stable at around 2.5 per cent. Housing, given its characteristics of durable consumption good, is viewed outside the area of public provision. Such policy departure would have resulted in crowding out of public investment to expenditure on other welfare areas, but it would have led to the production of social housing option for the poor, especially in the urban areas.

## 3. Housing policy framework

The Indian government has declared more subsidies and formed a policy framework for the first time homebuyers in the higher income group after union budget 2017-18. Presently, the subsidy on home loan interest was available exclusively to those who have income up to Rs. 6 lakh per year. At one time the subsidy has been provided to those with the income slab up to Rs. 12 lakh per year and Rs. 18 lakh per year, then it was extended to citizens having earning up to Rs. 12 lakh per year and thence they will take an interest subsidy of 4 % on a principal sum of Rs. 9 lakh. Thus, income slabs up to Rs. 18 lakh per year will receive a financial support of 3 % on a principal amount of Rs. 12 lakh. The homebuyer in an income slab of Rs. 6 lakh per year will receive a financial support of 6.5% on a principal amount of Rs. 6 lakh, irrespective of the total financed amount. If a citizen borrows Rs. 20 lakh for purchasing a household at 9 % per year, he/she will have to pay merely 2.5 % interest on Rs. 6 lakh and on the remaining 14

lakh, he/she will be asked to pay 9% interest.

### A. Impact of demonetization on housing sector

Deep impact of demonetization since its implementation i.e. from 9th November 2016 has been observed on two different segments: newly constructed property and resale property. Demonetization has less shock on the newly constructed property market and more along the resale property market. The important observation is that even though there were less real estate transactions in last six months, but there was not a high drop in the monetary value of the newly constructed property, resale property, and estate. Builders have gone into negotiation with a serious buyer who is eligible for home loans. This has got buyers considerable value for their money and a perfect chance to keep open on property purchased with bargaining. A resale property has faced a direct impact due to demonetization because cash payment took on a vast role in such events. This also brings good news for buyers as the unaccounted cash is no longer in the market, and then there is less requirement for buying which had cut down the price of a property. If you are planning to buy a house, it's the best time to purchase with the availability of different schemes of government.

### B. Real Estate Investment Trusts (REITs)

A real estate investment trust (REIT) generally is a firm that buys and manage revenue property (Equity) or credit finances (Mortgage). REIT's bid a number of rewards to persons who don't have adequate capital to invest in the real estate sector but desire to have own possessions. REITs have opened up a perspective that will permit all investors even those with smaller budgets of a sum as Rs. 2 lakh to make secure and rewarding investments into the Indian real estate sector. REIT is a procedure to create funds from stakeholders by directly investing in genuine estate properties like residential units, offices, shopping centers, hotels, warehouses, etc. Agreeing to this Act, dividends of 90 percent will be catered to an investor from the capital gains accruing from the sale of the commercial asset. It will provide diversified and safe investment opportunities with reduced risks and maximum return on investments. Additionally, REITs are obligatory to invest in at least two construction projects and investment in any one project must not go beyond 60 percent of the value of assets owned by the REIT and are allowed to invest only in the assets located in India.

### C. Real Estate Regulatory Authority (RERA)

To safeguard homebuyers and investors in the real state segment, the parliament of India passed the principles and procedures of RERA in March 2016. This Act is obligatory for all residential and commercial projects where the land area exceeds more than 500 sq. meters or 8 apartments. Builders have to register on-going projects within three months of commencement of the Act in order to provide transparencies in a project. Registration applications can be declined or approved within the thirty-day period from the date of application to the

real estate regulatory authority. A penalty of 10 % on project cost or three years custody can be imposed on those builders who fail to enroll with real estate regulatory authority. The major benefit included in the Act is that builders have to quote rates based on carpet area (including toilets and kitchen) and not super built-up area. This will ban unaccounted money to be pumped from buyers into real estate sector as 70 % of the amount has to be deposited in the builder's bank account. All union territories and two states, Uttar Pradesh and Gujarat have already implemented this bill. Chandigarh has set up an impermanent regulator and other states have to meet the deadline for implementation from the time of the bill passed. This bill will bring a transparency to the sector.

**D. Goods and Service Tax (GST)**

Goods and service tax is the largest taxation restructure in India, which will eliminate barriers to housing sector mitigating the difference in direct tax systems. The Goods and service tax committee has brought the real estate division through work contracts and increased the rate for the construction sector to 18% from an initial 12 %, but the deduction of land value equivalent to one-third of the total amount charged is allowed. For example, if the value of a property is Rs. 75 lakh, a developer can deduct up to Rs. 25 lakh (one-third of Rs. 75 lakh) as land cost and compute GST at the rate of 18 % on the remaining Rs. 50 lakh. Thus, GST is levied on only two-thirds of the total value and the effective price. The GST rate remains unchanged at 12 %, which will not affect the existing tax of homebuyers. Earlier, a home buyer had to reimburse many indirect taxes, including excise duty, service tax, and value-added tax, but excluding stamp duty. In the GST system, the transaction cost rises to 12 % with input credit available on both

amenities and materials. In case, no input credit is approved by the developers a property transaction cost will increase by 6 %, and it passed on the contribution credit to consumers, the property value rise might be controlled to 1-2%.

**E. Benami Transaction Act**

The Benami Transaction Act will restrict black money flow in the housing sector. The Benami transaction act defines that a property is held by or transferred to a person, but has been paid by third person. Property transaction includes: (i) the transaction did with fake names (ii) unawareness about ownership of property by the owner and (iii) unable to trace person providing the consideration for the property. Instead of possessing black money in cash, the tax evader invests their gathered illegal money in buying Benami properties. The whole process reduces the income generation of government adversely affecting growth and development of the country. As the taxpayer's percentage in the country is miserable, the government has failed to successfully implement its policies and schemes due to lack of resources. A strong law against Benami properties is needed to have a check on corruption.

**4. Need for housing policy in India**

Housing is one of the most important struggles in the developing nation and shortage in India has been a matter of serious concern for both Central and State Governments. The increase of population from rural to an urban society is rapidly moving by 3.35 % of the entire population. Presently 31 % of the population is in urban areas of the country. The situation is predictable that the populace of the urban area will see a growth of 900 million in 2050. In the current decade, the number of towns and cities has risen considerably. The drift towards

Table 1  
Key reforms and policies in housing sector in India after independence

Key reform and policies	Year	Implications
Low Income Group housing scheme	1954	The dwellers with income less than Rs.6000 per year are provided loan up to 80% of the house cost.
Slump clearance and improvement scheme.	1956	In this scheme, Government of India targeted sprawl removal by providing homes for affordable rent.
Housing scheme for middle income group	1959	The policy was built up for improvement and overall development to promote rural housing with financial aid in terms of loan to individuals and co-operatives were given to build dwellings in rural housing projects.
Housing and Urban Development Corporation (HUDCO)	1970	To promote sustainable development and to enhance the existing standard of lower income group.
Housing Development Financing Corporation	1970	Under this policy, everyone was provided with housing finance solutions.
Indira Awas Yojana	1985	Providing houses for families below the poverty line in rural areas.
National Housing Bank	1987	To promote housing finance and focus on providing push to the housing sector, Reserve Bank of India established finance institute.
National housing and habitat policy (NHHHP)	1998	Formation of NHHHP was the main objective of having housing stock for both ownership and rental model, especially for low income and economically weaker section.
Rajiv Awas Yojana (RAY)	2009	The Yojana was introduced with the intention to create a slum free India by providing property rights to slum residents.
Pradhan Mantri Awas Yojana	2015	Credit Linked subsidy and partnership in affordable housing is launched by prime minister of India under mission 'Housing for All' by 2022.
Public-Private Partnership for affordable housing.	2017	The PPP policy includes various models. One of them is to provide assistance of Rs.2.50 lakh to every house even on individual estate.
Carpet Area for affordable housing.		Government hikes carpet area for MIG - I and MIG - II, under 'Pradhan Mantri Awas Yojana' from 90 sq. meter to 120 sq. meter and 110 sq. meter to 150 sq. meter respectively.
Affordable Housing to Infrastructure status		Affordable Housing projects are now given the status of infrastructure to provide access institutional credit and low cost of borrowing.

growth shows significant differences in many Union Territories/States of the country. However, States such as Maharashtra, Karnataka, Tamil Nadu, Goa, Punjab, and Gujarat have attained more than 35% urbanization. The states like Bihar, Rajasthan, Odisha, Uttar Pradesh, Himachal Pradesh, Jharkhand etc. has low rates of urbanization. The growth of slums and unlawful resident settlements through wider consequences on the safety, health, and well-being of the society has been increased. Affordable housing has become a distant daydream for the LIG & EWS with all round rise in the cost of building materials, the cost of land, and labour.

### 5. Housing schemes by government of India

The Government of India has formulated many housing policies, to establish a reasonable provision of shelter, land, and services at for low earning groups, which will preclude the development of slums in urban regions.

The history of housing policies in India since Independence, one can easily deduce that most of these policies were focused towards providing subsidies to the home buyers in the economical weaker section and lower income group categories. Thus, the current restructuring of housing policy is directly focused towards empowering the affordable housing developer which is a really good indication to promote and encourage the involvement of developers in the construction of affordable housing in urban arenas.

### 6. Conclusion

Housing is an important economic activity in India. It provides good amount of income and employment and has strong linkages with other sectors. Therefore, policy changes in this sector shall have implications for overall growth of economy and macro policies can influence housing activity to a good extent. It is the responsibility of the government to ensure that all sections are provided appropriate housing at affordable prices. There are practical limitations in providing housing on ownership basis to all citizens and thus, the rental housing market should be developed and strengthened. As India has transformed from mixed economy to market economy, housing witnessed many changes for example, plan investments in housing were declining and so also the public provision of it. The programmatic focus of housing, in general, and that of urban poor, in particular, has also shifted from time to time reflecting the needs of time and people; but they achieved limited but not lasting success. The policy focus shifted from delivery of housing unit to facilitating its provision in line with changes in macro-economic policy. Here, the government

provides primarily focused on demand side interventions in the form of incentives to various actors e.g., liberalizing home financing, providing tax incentives, which encourage housing becoming a private activity. Further, recognizing the need to widen the scope of reform, the Union Government came out recently with the Jawaharlal Nehru Urban Renewal Mission, which seeks the cities to bid for financial support to infrastructure and overall development through city development strategies and plans. It is hoped that this will usher in a new era wherein the cities will strive towards well organized development of their infrastructure while enhancing housing options and habitability conditions of their citizens. The boom in house prices and housing supply observed in the recent past has to be seen from this perspective, when urban housing is changing the economic outlook of cities and the nation.

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