

HOUSING AND HOUSING FINANCE IN INDIA: RECENT EXPERIENCE

Madhu Bharti

Professor, Cept University, Ahmedabad, Gujarat, India

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ABSTRACT

Since the Independence in 1947, India has undergone a major transformation in the composition of urban population which now stands at 32%. The state has responded by having a number of schemes to meet the urban challenges for the growing population. Initially, through the five year plans the government had adopted the role of service provider how-ever over time the government has allowed for a larger role for the private sector. This has led to large scale development of private housing for the better-off section of the population, many of which stay vacant or unsold while a substantial section (especially in cities like Mumbai) stay in slums and poorly serviced areas. Government efforts to get the private sector involved in slum redevelopment in Mumbai has not met with success while as private exclusive cities are coming up fast with no engagement and space for the poor. Housing for all by 2022 under the affordable housing programme is an ambitious scheme of the government. A number of initiatives have been taken up to bring in private funding and transparency to the sector. The detailed abstract on 'Housing & Housing Finance in India: Recent Experience' proposes to present the changing role of the state sector in an effort to meet the urban challenges.

KEYWORDS: *Affordable Housing Programme, Highly Urbanized, Composition of the Urban Population, Challenges of the Growing Population*

INTRODUCTION

After Indian independence in 1947, the urban population in India increased at a quick pace to 377 million by 2011 (accounted for 32% of the total population). Along with this, the number of cities and towns grew, now India has 53 metro cities which were only 4 at the time of independence. About 40% of the urban population lives in these 53 metro cities. The big 10 cities have about 24% of the urban population. Some states like Goa and Delhi are highly urbanized and have about 95% urban while some state in the north (Himachal) and northeast (Meghalaya) have low (10-20%) urban population (census, 2011). Due to the variation of urban-rural composition, levels of industrialization demand of the local area housing have developed with a local approach. The Indian constitution recognized this need and placed land and housing are under the jurisdiction of the state governments. The central government through the Ministry of Urban Development and Ministry of Finance formulate the policies for public and private involvement in housing.

Since the Independence in 1947, due to the transformation in the composition of the urban population (which now stands at 32%) the state has responded by having a number of policies, programmes, and schemes to meet the challenges of the

growing population. Initially, through the five year plans the government had adopted the role of service provider however, over time the government has allowed for a larger role for private sector involvement.

The Nehruvian approach to Indian economy was based on the concept of five-year plans through which priorities were fixed in the national budget. These five -year plans reflected the changing socio-economic needs of the country. Starting in 1951 with the 1st five -year plan the 12th five -year plan has just ended. Since the first five years (1951), the Urban development and housing sector has undergone major shifts, these can be stated as the following phases:

- Government responding to the immediate needs of shelter shortage by providing housing to migrants and setting up new institutions and legislation. Immediately after independence, the immediate priority of the government was to provide housing to the large influx of refugees coming into the country. These were housed in resettlement colonies in Delhi and other states. Thriving examples of this are the resettlement areas of Lajpatnagar (Delhi), Ulhasnagar (Near Mumbai) and others. Delhi Development Authority and other similar state-level development boards were also set up during this phase.
- Government as a provider of basic services. Development of small and medium towns, setting up of State housing & development boards, Housing Finance institutions. The second phase (early 70's onward) marked with the government wanting to promote small and medium towns. Focus shifted to the development of satellite town, new financial institutions, and private housing development was promoted. Local governments (state/city) came up with new plans for integrating the slums and poor income areas into the city. Various schemes (Site and Service schemes by Indore Development Authority, Slum Networking schemes by Ahmedabad Municipal Corporation) were started by city governments.
- Government as a facilitator, involvement of the private sector by the provision of incentives. During this time large metros were growing faster, Mumbai was developing as the business capital of India. Industry and trade were thriving leading to an influx of workers. Population in slums having very low services and extremely high population densities grew was growing. Residential and industrial (mostly small scale) grew side by side often with disastrous consequences. This reflected the inability of the center and state governments to efficiently provide housing for the population. As per TG 12, a technical group constituted by the government at the beginning of the 12th five-year plan to estimate the housing shortage, the housing shortage in urban India stood at 18.78 Million with 95% of this being in the economically vulnerable groups.
- Opening up of the economy, invite foreign investment in housing & urban development. In the year 1991, under the leadership of the then prime minister Dr. Manmohan Singh, India ushered in the modern era of 'Liberalization of Indian Economy'. This marked a shift from so-called 'Licence Raj to open economy'. India opened the real-estate sector for Foreign direct investment and eased the entry and exit to the housing market (Rao & Kadam, 2016).

LIBERALIZATION OF INDIAN ECONOMY

India's GDP stood at USD 86.74 billion in 1991 while about 25 years later it was USD 2007.9 billion up by nearly 2200%. By 2015-16 India's GDP crossed the USD 2 trillion mark (WB,2015) Between 2005-2006 as the economy grew at 9% mark annually, India emerged one of the fastest growing economies with a growth rate between 6-7% annually. The housing and real estate sector forms 5-6% of countries gross domestic product. After agriculture, the construction & real estate is the second largest provider of jobs in India. The Indian Real Estate sector is expected to touch USD180 billion by 2020.

Before 1991 foreign investment was negligible, after the opening of the economy, FDI in real-estate started increasing and is expected to increase up-to USD 25 billion in the next 10 years from the present USD 4 billion (CCI,2015). India has opened the real-estate sector for Foreign direct investment and eased the entry and exit to the housing market. The market size of the sector is expected to increase at CAGR of 11-12% and will propel the growth of real estate sector (Hindu,12/01/2018).

So far, the policies directed to improve housing, such as improving credit access and tax rebates have resulted in the development of houses for the middle-income groups, the economically weaker section have been largely left out. A huge gap in the demand and supply is evident in the fact that 12 five year plan identified 11 million houses lying vacant in the country (concentrated in and around Bangalore, Mumbai, Delhi& Hyderabad). Considering the profits, only high-end development is coming up through private interventions thus increasing the affordability gap. India has emerged as the second most favored destination for real estate in the world, since March 2005 FDI up to 100% of project investment is allowed. FDI investment in India is growing through multiple business models as large scale direct entry, the establishment of umbrella joint ventures, investment through the creation of capital fund, etc. From April 2000 to September 2015 FDI in real estate & construction has been around USD 24.16 billion which accounts for 9% of the total FDI inflow during that period. Private townships like the Ascendas Integrated Township at Chennai have come up through the FDI route.

Improving Access to Housing Finance

In support to the National Housing Policy of the central government, the Reserve Bank of India (RBI) has been facilitating the flow of credit to the housing sector. Lending for housing has been identified as a priority sector for all state and private banks. Interest rates on lending to individuals for housing have come down and a number of tax incentives are provided to individuals for the purchase of housing unit. A number of housing finance institutions are coming up. As per estimates 25 such HFI have come up since 2015, however, Life Insurance Corporation of India(LIC) and Housing and Development Finance Corporation are the leading intuitions commanding about 50% of market presence. As per NHB annual report, small housing loan (less than INR 1,000,000) form less than 15% of the disbursement, while as 53% of the disbursement is for the luxury segment.

Recent Initiatives

The government led by Prime Minister Modi has focused on the urban sector with the announcement of a number of schemes. Under the smart city mission, 100 cities have been identified for urban renewal and retrofitting program to make the cities more liveable (expanding housing opportunities for all being one of the goals). Similarly, the proposed Pradhan-Mantri Awas Yojana(PMAY) or Prime-Ministers Housing scheme, proposes to provide affordable housing to all by 2022. Ownership of the housing unit allotted under PMAY will mandatorily be registered under the female member of family, thus empowering vulnerable women. Affordable housing has received infrastructure status, so as to reduce housing shortage and bring more investment to the housing sector. It is expected that private partners will participate in this mission. About 8 new private-public partnership models have been announced and started in the states of Gujarat, Rajasthan, and Jharkhand. A number of acts and regulations have been introduced with the aim of bringing transparency to the real-estate sector, making the real estate sector consumer-friendly, and to curb the inflow of black money to the real-estate sector. Real Estate(Regulation and Development) Act 2016, (RERA) focuses on bringing in transparency and protection of consumer rights is expected to provide relief to the consumers. The RBI has also allowed SEBI to ease the funding norms for REITS by allowing them to raise funds through debt securities. States like Maharashtra, Gujarat, Haryana have framed new initiatives for rehabilitation of slums under the Slum-in-situ rehabilitation policy, especially for slums on government land.

Challenges

As Indian cities are growing at a rapid pace by 2030, India will have 10 megacities and nearly 50% of the population will be urban. Given such a scenario there are a number of challenges to the Indian real estate sector, prime concerns are listed here;

Lack of authentic land records, title certification is a tedious and lengthy process. With the introduction of digitization in land records, it is expected that this will ease out. Land held by the local authority for housing should be made available for affordable housing.

A capacity of urban local bodies to implement the ambitious schemes of the government. Unless sufficient attention is paid to improving the capacity and filling up the vacant positions. Getting approvals for construction takes a long time. It is important to have time-bound approvals for various activities.

Fast, reliable, affordable and safe local public transport is the need of the hour. Development of TOZ's along these corridors can help to avoid the urban sprawl.

The Banking sector though has ushered in a number of reforms yet need to reinvent themselves with respect to their approach to the urban poor. Given the fact that 90% of workforce is employed in informal activities, the documentation and guarantees required by banks are difficult for such consumers hence decreases access to finance.

Project funding at competitive rates should be made available to developers who are small size dwelling units at affordable cost.

Need to rationalize the recently introduced Goods and Service Tax(GST) for the Real estate sector. Also, incentives should be provided to design and technology initiatives to lower the cost.

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