

Affordable and sustainable housing - Five Imperatives

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Source

- ▶ The insights shared in this presentation are based on the following sets of experiences:
 - ▶ Fifteen years of work on city planning in Gujarat and other states, preparing statutory city plans
 - ▶ Five years of involvement in affordable housing – advocating housing policies and as Director in an affordable housing development company
 - ▶ Collaborative work with many NGOs on issues related to slum improvement and housing rights



Five Imperatives

1. Liberate supply
2. Facilitate housing finance
3. Provide mezzanine project finance
4. Integrate social services with affordable housing
5. Create a complete ecosystem for affordable housing



1. Liberate Supply

What does housing supply depend on?

- ▶ **Availability of land**
 - ▶ Zoned for housing development
 - ▶ Provided with infrastructure (road, water, sewer, power)
- ▶ **Ease in securing building permits**
- ▶ **Policies that make development more attractive than hoarding and speculation of land**
- ▶ **Higher the FSI, higher the supply of housing floor space**



What constrains supply today? - 1

- ▶ **Structural/ systemic constraints**
 - ▶ Slow, unresponsive and antiquated approaches to city planning
 - ▶ Regulations that promote uniformly flat and low density development across a city
 - ▶ Total lack of integration between land use and public transport (for affordable housing, access to public transport is critical)
 - ▶ Time lag in infrastructure provision (increasing coping costs for low income home owners)



What constrains supply today? - 2

- ▶ **Constraints in policy and procedure**
 - ▶ Policies that strangle rental housing
 - ▶ Very slow and opaque approval processes
 - ▶ Excessive normative standards
 - ▶ Policies that make speculation more attractive than value addition
 - ▶ High overheads – stamp duty, registration charges, etc
 - ▶ Low mobility in ownership (For low income home owners, mobility is very important. They should be able to buy/ sell/ rent/ lease their house easily. Current policies and procedures severely inhibit mobility)



Initiatives needed to liberate supply - 1

- ▶ **Radically change approach to city planning**
 - ▶ Revise plans every five years
 - ▶ Increase permissible density
 - ▶ Correlate density to urban transport systems (higher density along transport corridors)
 - ▶ Declare phase wise plans for infrastructure provision and incentivize high density development in areas with infrastructure
- ▶ **Make development more attractive than speculation**
 - ▶ Tax all properties in areas with infrastructure, based on 'permissible' development rather than actual development, thus incentivizing full utilization of land (make exceptions for heritage buildings etc)



Initiatives needed to liberate supply - 2

- ▶ **Provide, support and facilitate sustainable infrastructure**
 - ▶ Provide public transport connectivity
 - ▶ Provide metered water supply
 - ▶ Support decentralized waste water management
 - ▶ Support decentralized, sustainable energy management
- ▶ **Radically change building regulations**
 - ▶ Reduce normative standards for low income housing
 - ▶ Minimum floor area; parking requirements; lift requirements
 - ▶ Focus on safety and hygiene and move from normative approach to performance standards



Initiatives needed to liberate supply - 3

- ▶ **Promote rental housing**
 - ▶ Create new legal and policy frameworks to actively promote rental housing
- ▶ **Enable the emergence of new forms of housing**
 - ▶ Dormitories, hostels
 - ▶ Housing complexes with shared toilets, community kitchens
- ▶ **Enable new types of home ownerships**
 - ▶ Hire purchase or rent-to-own
 - ▶ Forms of collective ownership where shares can be transferred easily
 - ▶ Dematerialized ownership in rental housing companies
- ▶ **Promote mobility in home ownership**
 - ▶ Make buying/ selling/ renting/ leasing easy

2. Facilitate housing finance

What constrains housing finance today?

- ▶ Only a few housing finance companies (HFCs) serve the low income, informal sector customers
- ▶ Customers don't have papers to prove identity, address, income, etc
- ▶ Lack of banking habit among low income customers
- ▶ Regulatory constraints make it difficult for HFCs to adopt approaches as flexible as required for serving low income, informal sector customers
- ▶ Customers find it difficult to pay rent on current house and pre-EMI on future house simultaneously
- ▶ Customers have difficulty with the down payment/ margin money since many of them don't have savings habits

Housing Finance initiatives required

- ▶ Legal, policy and institutional framework for a new genre of HFCs designed for the affordable housing market
- ▶ Flexible procedures designed for low income, informal sector customers
- ▶ Massive campaign from government to mainstream low income, informal sector customers in terms of:
 - ▶ Documentation
 - ▶ Banking habits
 - ▶ Education on personal finance
- ▶ Moratorium on home loan repayment till occupancy of new house
- ▶ Savings products linked to home loans so that customer can build up the margin money, pre-EMI and buffer for loan repayment

3. Provide mezzanine project finance

The issue

- ▶ Typically, the financial structuring of a real estate project factors in the following:
 - ▶ Down payment/ Margin money payment from customers
 - ▶ Installments from customer or disbursements from HFC during progress of construction
- ▶ When HFCs start disbursement, they charge pre-EMI to customers
- ▶ Typical low income informal sector customers have difficulty with both:
 - ▶ They need to build up the margin money over a period of time
 - ▶ They have difficulty paying both rent in their current house and pre-EMI for future house
- ▶ The above situation hits the cash flow of the developer

Possible solutions

- ▶ **The ideal situation will be as follows:**
 - ▶ Developer gets mezzanine project finance which allows construction to be completed before repayment starts
 - ▶ Customer gets support for building up down payment/ margin money over a period of time
 - ▶ Booking and sales process is completed
 - ▶ Customer gets moratorium on repayment till taking possession of new house
 - ▶ Developer hands over the house, customer moves in and starts repaying loan
- ▶ **The mezzanine finance can be linked to loan approvals of customers**

4. Integrate social services with affordable housing

Why?

- ▶ There is a lot of education and hand holding required in the journey towards home ownership
 - ▶ Banking habits
 - ▶ Documentation
 - ▶ Debt consolidation and management
 - ▶ Regular repayment
- ▶ Low income informal sector customers tend to be vulnerable financially, so even after purchase of home, an event like loss of job, illness or death in the family can push the family back into homelessness



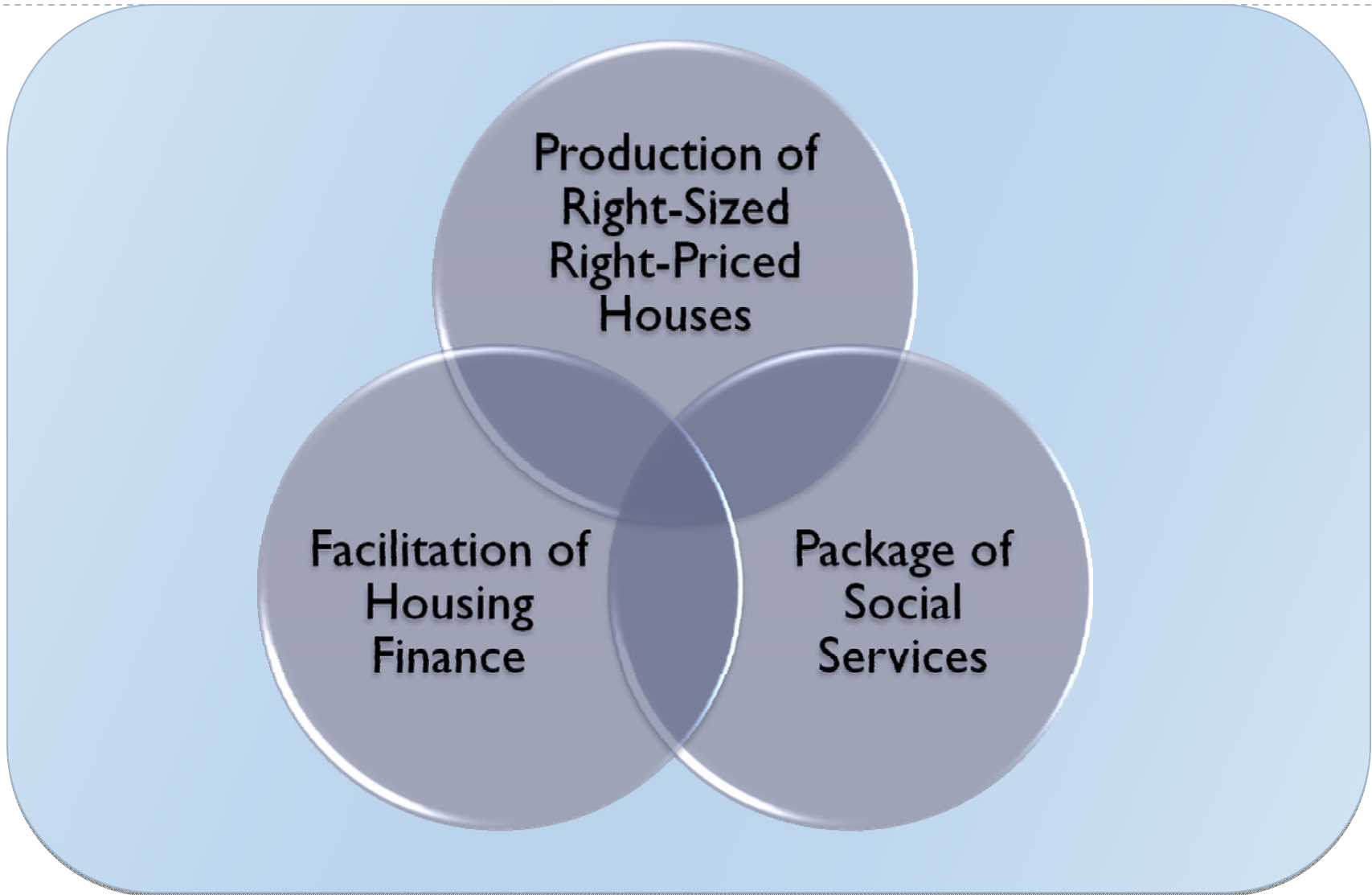
Social services required with housing

- ▶ **Livelihood services – skill upgrading and placement services**
 - ▶ The income of the family should continue to increase steadily so that they can continue to own their new house (the market value of which will also keep increasing)
- ▶ **Financial services**
 - ▶ Micro finance – savings and credit societies
 - ▶ Mainstream banking
- ▶ **Health and education services**
 - ▶ To reduce vulnerability and increase resilience – physically and socially
- ▶ **Community Organization**
 - ▶ Maintenance of the housing complex
 - ▶ Effective collective bargaining for social services



5. Create a complete ecosystem for affordable housing

The main components of the ecosystem



Creating the ecosystem

- ▶ Promote a specialized genre of Affordable Housing Developers
 - ▶ Focused on low income informal sector customers
- ▶ Promote a specialized genre of Affordable Housing Finance Companies
 - ▶ Focused on low income informal sector customers
- ▶ Actively support Community Service Organizations for providing social services to low income informal sector customers
- ▶ Establish R & D Centres / Affordable Housing Institutes to develop the knowledge base in this area





Thank You

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