

# 04 AFFORDABLE HOUSING

Centre for Science and Environment  
41, Tughlakabad Institutional Area, New Delhi 110 062, INDIA  
Ph: +91-11-2996110 - 5124 - 6394-6399 Fax: +91-11-29955879  
E-mail: cse@cseindia.org Website: www.cseindia.org

## AFFORDABLE HOUSING



### Where are the houses?

There is a severe deficit in overall housing provision — especially of formal affordable housing — in Indian cities. The majority of the urban population in India belongs to the low income category, while a quarter of it qualifies as poor. Hence, the demand for affordable and low-cost housing is phenomenal. The Technical Group on Urban Housing Shortage (2012-17) constituted by the Union ministry of housing and urban poverty alleviation (MoHUPA) has estimated that about 95 per cent of the housing shortage pertains to the Economically Weaker Sections (EWS) and the Low Income Groups (LIG).

In 2013, the ministry had revised the estimates for shortage of housing units to indicate that the deficit had reduced from 26.53 million units to 18.68 million. This was because about six million housing units had been added; government policies, improvements in financial support from banking institutions and income growth had helped. However, there are concerns the actual estimate of housing shortage could still be very high — with the unofficial estimates placing it at more than 40 million. The demand is growing at 10 per cent a year.

### Official initiatives

India's **National Housing and Habitat Policy** was announced in 2007. This is a guiding document which promotes measures like reserving 10-15 per cent land and 20-25 per cent FAR (floor area ratio) in upcoming housing projects for affordable housing. The policy also provides opportunities to the private sector for creation of such housing stock through land assembly. Importantly, the housing policy strives for *in-situ* development and states that housing for the poor residing in urban areas should be within their present locations and close to their workplaces.

Another widely publicised programme is the **Rajiv Awas Yojna (RAY)**, which aims for a slum-free India by 2014. The intention is to bring the existing slums within the formal system by providing land rights to slum dwellers. The **Mortgage Guarantee Fund** announced in 2011-12 is aligned with the RAY. A corpus of Rs 10 billion was created for building housing stock;

### Confusion over definition

How is affordability defined? Does it imply owning a house where one wants, or the ability to buy it at a price one can afford, or both? Affordability may mean differently for people based on their incomes; it may also acquire a different meaning for builders, governments, finance agencies, architects etc. Generally, houses in the bracket between Rs 5-15 lakh are considered affordable.

it is administered by the National Housing Bank. In addition, there is an **Interest Subsidy Scheme for Housing for Urban Poor (ISHUP)** that offers a 5 per cent subsidy on interest subsidy on housing loans up to Rs 1 lakh to people belonging to EWS and LIG for both home purchase and construction.

The 2012-13 budget brought another flurry of sops to the sector. Affordable housing projects have been offered permission to tap the cheaper channel of external commercial borrowings (ECBs), exemption from service tax and extended interest relief for borrowers. Several states have attempted to give a boost to affordable housing by announcing favorable policies and schemes. For instance, the Maharashtra government has proposed sharing one-fourth of the land cost if targeted sections show interest in acquiring land for housing. Rajasthan has facilitated clearances in addition to allotting land to projects for affordable housing, while Tamil Nadu is planning to give greater Floor Space Index (FSI) to such projects without charging a premium.

### What are the constraints?

The factors that play an important role in impacting demand for affordable housing include income levels of the targeted population, the status of the economy, availability of land and of finance at reasonable terms, infrastructure, and the regulatory framework.

- **Land availability:** The price of land is probably the single most important determining factor in the

## Housing stress

The 2013 Union ministry of housing and urban poverty alleviation (MoHUPA) report captures households residing in dilapidated and non-serviceable housing, those living in congested conditions and homeless populations. The number of obsolescent dwelling units (excluding those that are less than 40 years old and those aged 80 years or more) was estimated to be 2.27 million in March 2012.

The number of households residing in dwelling units that are non-serviceable *katcha* units were 0.53 million. Together, the obsolescent and non-serviceable *katcha* households numbered 18.68 million units. As far as the number of households that require dwelling units because they were living in severe congestion is concerned, the estimates pointed to a figure of 14.88 million.

Households requiring separate housing units were 14.98 million. The households in homeless conditions were yet another 0.53 million. Thus, the grand total of the number of dwelling unit shortage in India adds up to 18.68 million.

The MoHUPA report also provides a distribution of housing shortage according to income classes (EWS and LIG). Three-fourth of the shortage is in the EWS section. In the LIG section, there is a significant shortage as reflected in the congested living conditions. The EWS, LIG and MIG/above categories have housing shortages of 10.55, 7.41 and 0.82 million respectively. About 60 per cent of the shortage is in seven states — Maharashtra, West Bengal, Bihar, Andhra Pradesh, Uttar Pradesh, Tamil Nadu and Rajasthan.

cost of housing. By some estimates, land cost may end up accounting for more than 70 per cent of the total cost; with it, land will become an extremely scarce commodity. Time lost in clearances also adds to the cost of land. If the land cost remains high, it would become difficult to give city-based locational advantages to the residents of these affordable housing units. Several experts believe that provision of land banks by the government within the city could solve this problem to some extent. The high density, land prices and high cost of construction make affordable housing efforts more difficult in metro cities as opposed to the tier II and III cities. Cooperative housing can play a vital role in facilitating provision of houses in this sector.

- **Exclusion from formal finance systems:** A large majority of the people in India is not included in the formal banking/financial systems; their access to housing finance is, therefore, very limited. Although there has been a significant spurt in the housing finance market, an overwhelming proportion of buyers belong to the high and middle income groups. Often, the lack of required documents or collaterals coupled with skepticism and fewer schemes for this income group by the banking/financing institutions has limited its reach.
- **Poor design and quality of construction:** Often, low-cost housing translates into low quality construction. To keep the price within affordable limits, the quality of materials, design etc take a back seat. In the name of affordable housing, what the poor end up getting are small-sized single room units which create unlivable conditions. The very

high density of these units makes them not very different from slum conditions. A large majority of the people living in these units work in small-time businesses which require specific design considerations. In the absence of such sensitivity, these housing units may not be occupied as intended and are liable to be misused. According to the Bureau of Energy Efficiency (BEE), 85 per cent of the households in Delhi use less than 100 kWh/month of energy. This is a sizable population which belongs to LIG and EWS categories. This segment often does not have the means to use high end appliances such as air conditioners for thermal comfort. Therefore, the design and building material play an important role in providing them with adequate comfort. In addition, safety concerns are also important since poor material can lead to building collapse and cause damage to life and property.

- **Private developers lack interest:** Research firms say developers involved in building low-income housing in India tend to target the lower middle income group (Rs 7,000 -20,000 per month) instead of the LIG or EWS. As a result, the housing units being constructed by them cost between Rs 3-10 lakh. Global experience shows that it would not be sensible to delink government from affordable housing and leave it in the hands of private developers.
- **Location:** Affordability is very closely linked with the location of the housing unit. A majority of the poor work in the informal sector and there is little doubt that they would have serious concerns if their

## The irony of vacant houses

As per the census of 2011, the total number of census houses in urban areas is 110.14 million, of which 11.09 million units are lying vacant and 0.73 are occupied but kept locked.

Further, a total of 19.84 million units are used as shops, schools, offices, hotels/lodges, factories, workshops, places of religious worship etc. the remaining units for residential purposes. 76.13 million units are used only for residential while 2.35 million houses are used for residential as well as other uses, which total to 78.48 million units.

A very large number of houses are lying vacant for the want of tenants or constraints in the housing market or lack of affordability to buy such houses. Some of these vacant houses are purchased for the purpose of investment and are therefore not occupied. According to the census, the vacant and the locked houses account to 10.73 per cent of the total stock. Of the total vacant houses 6.6 per cent were found locked at the time when enumeration was done. Nearly 9.43 million housing units are lying physically unutilised.

expenditure on transport increases. In addition, rise in travel time would affect their work hours and thus, their incomes. In fact, often enough the 'resettlement' of the poor has ended up creating more problems than solving them.

- **Blanket affordability:** In India, the size of a housing unit is directly related to affordability. But this is likely to differ in different cities. In cities like Delhi and Mumbai, income levels of the urban poor would be higher. But it would be very difficult for them to own respectable space in the city and build a home. In smaller cities, even though land prices may be comparatively lower, so will the income levels of EWS households — neither will they afford houses in the existing prices. Therefore, local price and land factors need to be acknowledged in

designing policies for affordable housing.

- **Low priority to rental housing:** About 80 per cent of low-income rental units in India exist in the informal market. These units are often located closer to workplaces of the poor and are a classic case of poor renting to poor at affordable rents. They exist in slums, resettlement and illegal colonies and act as secondary sources of income for the landlords. In fact, they are considered the best options for migrant labourers who come to the cities seasonally for work. But renting, especially in informal settings, has not been given priority in government policies as opposed to ownership — appropriate policies for these rental spaces can go a long way in solving the housing problem in cities for the urban poor.