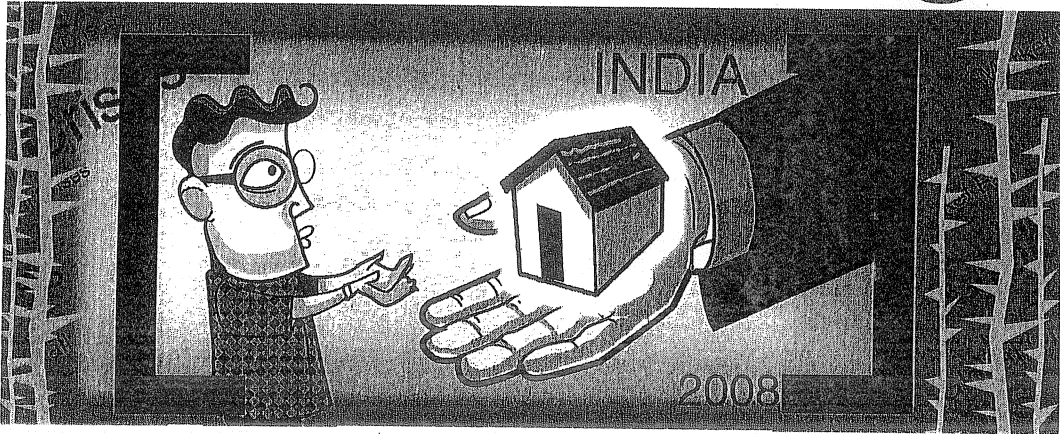


MONEY & BANKING

House that for mass housing!



The housing industry in India may be going through one of its worst phases. But even in such times, there are enough reasons for making 'affordable' housing a priority, says Mayur Shetty

IT IS difficult to imagine skyscrapers with floor after floor of unsold apartments in a city that is bursting at its seams with people. But that may well be the situation in Mumbai and Gurgaon if builders do not bring down prices. This is clearly not a situation of demand exceeding supply. According to government estimates, there is a shortage of close to 31 million dwelling units.

Experts estimate two-thirds of this to be in the urban areas. This is where the problem is really acute. In the rural areas the issue is more about the quality of construction as even the poor have some kind of dwelling unit and land supply is not an issue. Given the high level of urbanisation and shortage of land, it is the urban areas that require policy measures. The surge in global liquidity and sharp economic growth led to a doubling of real estate prices in the first five years of the decade. This, in turn, fuelled further investments in urban real estate. Almost every developer was building flats starting from a crore; not in the posh districts of Mumbai but in distant suburbs of Gurgaon and Navi Mumbai. While to a certain extent there has been a demand for high-end houses in the suburbs because of decentralisation and creation of new business districts, the growth has been at the cost of affordable housing.

Given that real estate prices have crashed in all leading cities in the western region, any policy that promotes an increase in supply may be seen as bizarre by foreign investors. But there are enough reasons for making affordable housing a priority area in the current environment.

In 2007, the Monitor Group, a strategy consulting firm that has been doing extensive work in the area of affordable housing in India, conducted research that highlighted enormous demand for housing among low-income groups. According to Ashish Karamchandani, CEO (India) at Monitor Group, up till now all developers have focussed on the higher end because it

meant fewer transactions, willing lenders and attractive profits. "There is enough evidence to prove that there is huge demand for properties selling at Rs 1,000 to Rs 1,500 a square foot." According to Mr Karamchandani, there is zero supply to meet the housing demands of those in the Rs 7,000 to Rs 12,000 monthly income bracket. Many families belonging to this income bracket are forced to live in slums. Developing houses for them would have a four-fold impact. Firstly, there is the social impact of providing the facilities that come with standard housing, which improves the general standard of living.

Secondly, the additional houses free-up rental dwelling for the immigrant population, thus preventing slums and ensuring the supply of human capital for a city's growth. Thirdly, from a systemic point of view low-cost housing is a much superior credit risk than high-end apartments. "In the higher-end apartments where 75% of the home value is backed by high land cost, there is an asset price risk. In low-cost housing where most of the cost is on account of construction, there is no risk of depreciation," says Mr Karamchandani.

But most of all there are the run-on benefits of promoting mass housing. One square foot of construction consumes 4-5 kg of steel and a couple of kilos of cement. Besides, there are perhaps very few industries that are as labour-intensive as housing, particularly in a country like India. Experts say that to fulfil the unmet demand for housing there is a need for innovative techniques that use lesser resources such as cement fibre boards and aluminium framework systems that reduce the demand for steel. But the sheer volume of construction will be so high that there will be a revival of demand for the core industries.

At present there is no fixed definition of what affordable housing is. Going by the rule of thumb followed in western markets, an affordable house is one which is worth four to five

times the buyers annual income. Clearly then, the cost of an 'affordable' house would vary according to the income of the buyer. But if one were to look at addressing the housing shortage, then the need is to look at developing affordable housing from the point of view of average per capita income in India which is close to \$1,000 (Rs 50,000).

Developers in far-off suburbs in Mumbai and Ahmedabad have demonstrated that it is possible to come up with low-cost housing where the land cost is around Rs 200 and the cost of construction is around Rs 550. The issue here is that the developers need to have a very low turnaround time since there is virtually no appreciation in land price. Secondly, a large number of those in this income group are in the unorganised sector. This makes it difficult for lenders to extend loans, as they are worried about the US subprime kind of situation where Ninja (No Income No Job) loans are seen as the trigger point for the crisis.

This is where policy comes in. The National Housing Bank is already working on a mortgage guarantee corporation. The success of this will depend on the extent of capital the government is willing to extend, which will, in turn, determine the extent of support that it can provide lenders.

The other large economies like the US and China are also looking at infrastructure funding. China's economic revival package earmarks 100 billion yuan of central-government spending this quarter for low-rent housing, infrastructure in rural areas, roads, railways and airports. This could go up further to 400 billion yuan if investments by local governments and companies are included. The immediate policy reaction to the financial crisis has been the opening of all liquidity taps to ensure that there is no credit freeze. Now the need is to channelise the liquidity into investments that will sustain growth.

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