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HOUSING FOR ALL

ARE WE PREPARED?

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PREFACE

In the Charter on Affordable housing presented last year in the CNBC Awaaz Real Estate awards, we highlighted the economic imbalance in real estate market and the lessons imparted by past mistakes.

In this paper, **"Housing for All: Are we prepared?"** we have traced the journey of the real estate sector to study the impact of the previous policies on the present day situation.

With continued inflow of capital, we stand with an inventory of over 10 lakh units today but what is worrisome is the current level of absorption and unaffordable prices. "Housing for All" is an ambitious goal and requires 18 times more inventory from the existing levels. However the big question arises, when the market and prevailing dynamics are not able to sustain with existing level of the inventory, can the developers take 18 times more commitments?

The sector requires an overhaul through enhanced urban settings and effective policy implementation. We have used our thorough analysis and judgement to suggest a few reforms that will go a long way in bringing discipline and efficiency. The impetus given to affordable housing on Union Budget 2016, has re-instilled our faith in the government. Nevertheless, it still has a long way to go and we anticipate that the path is characterized with more such concrete policies.

Housing for All: Are we prepared?

Economic turbulence, change in government, myriad policy initiatives and the ever intimidating interest rate fluctuations - this sector has seen it all. The journey over the past decade has been nothing short of an adventure.

With a change in leadership last year, it's time to take a hard look at reality. We trace the journey of the Indian real estate sector since 2002, when housing finance started being significant in a big way. After this, the Indian realty scene opened its arms to global funds as well in 2005. What followed was a roller-coaster ride and where it will lead is something that only time will unravel.

Timeline for developments in Real Estate

Pre-2005 Growth Phase	1987	Onset of organized mortgage industry with the establishment of National Housing Bank (NHB)	NHB was set up as the apex level institution for housing under the Seventh Five Year Plan (1985-90)
	1999-2002	There was a surge of housing finance companies	The interest rates reached sub 9% level and the SARFAESI act for asset restructuring
2006-2008 Opening up of the economy	2005:	• Opening of FDI	Press note 2 released on the FDI policy for real estate which promoted 100% investment, based on certain conditions, under the automatic route in townships, housing, built-up infrastructure and construction development projects.
		• JNNURM (Jawaharlal Nehru Urban Renewal Mission-I)	The flagship project of the UPA government with an estimated budget of Rs. 50,000 crore was a big boost to the infrastructure

	2008	Repealing the Urban Land Ceiling Act 1976	This was done to provide for the imposition of a ceiling on vacant land in urban agglomerations, so as to curb speculative practices through concentration of land in the hands of few. Maharashtra, Gujrat and Jharkhand have scrapped it. Townships and large scale projects came in MMR only post 2008
	2013	Land Acquisition Act	Regulates land acquisition for industrial and infrastructure purposes and lays down the procedure and rules for granting compensation, rehabilitation and resettlement to the affected persons in India
	2014	Make in India	The strategy of this campaign is to leverage manufacturing capacities in India to spur job creation and overall economic growth. Real estate, whether residential, commercial or retail cannot prosper if the economy does not grow.
	2014	Real Estate Investment Trust (REIT)	A new source of financing for India's cash-strapped property developers. REITs are listed entities that mainly invest in income-producing real estate assets, the earnings of which are mostly distributed to their shareholders. The removal of Dividend Distribution Tax for REITS in this budget is encouraging.

	2014	Smart city project	100 smart cities in India are targeted to be developed to boost infrastructure through digital technology. First 20 cities have already been finalized
	2015	Pradhan Mantri Awas Yojana (Housing for All)	Providing affordable housing to the urban poor. Government has also agreed to increase interest subvention to 6.50% on housing loans to beneficiaries belonging to economic weaker sections (EWS) including slum-dwellers and low income groups (LIGs).

The decade long journey has been quite eventful. One thing led to the other and defined the dynamics of the setting in which we are currently placed. The present state of affairs in the Indian Real Estate market is far from perfect. An overall sense of uncertainty is palpable across the value chain. Today, developers are burdened with cash crunch and numerous rounds of procuring approvals, buyers are grappling with high prices and project delays, while banks and HFCs are dealing with their share of mounting non-performing assets (NPAs). It is difficult to pin-point a particular reason because a scenario such as this is a product of unaddressed issues at multiple levels. Let us study the issues at the granular level and decode each aspect.

Delay statistics across the main markets in India

(% of supply delayed)

Cities	Less than 6 months	6 Months -12 Months	12 Months -24 Months	More than 24 Months	Supply as on Dec-15 (units)
Ahmedabad	54%	20%	19%	7%	1,74,411
Bangalore	64%	11%	16%	8%	2,74,192
Chennai	55%	15%	17%	13%	153,850
Hyderabad	30%	18%	20%	32%	93,624
Kolkata	55%	15%	14%	16%	68,944
MMR	43%	15%	20%	23%	4,64,677
NCR	29%	17%	24%	30%	6,00,773
Pune	47%	19%	22%	12%	2,53,069
Surat	72%	18%	7%	3%	64,,509
Vadodara	76%	13%	10%	1%	59819

Developers are burdened with cash crunch

Buyers are grappling with high prices and project delays

Banks and HFCs are dealing with mounting non-performing assets (NPAs).

Source: Liases Foras

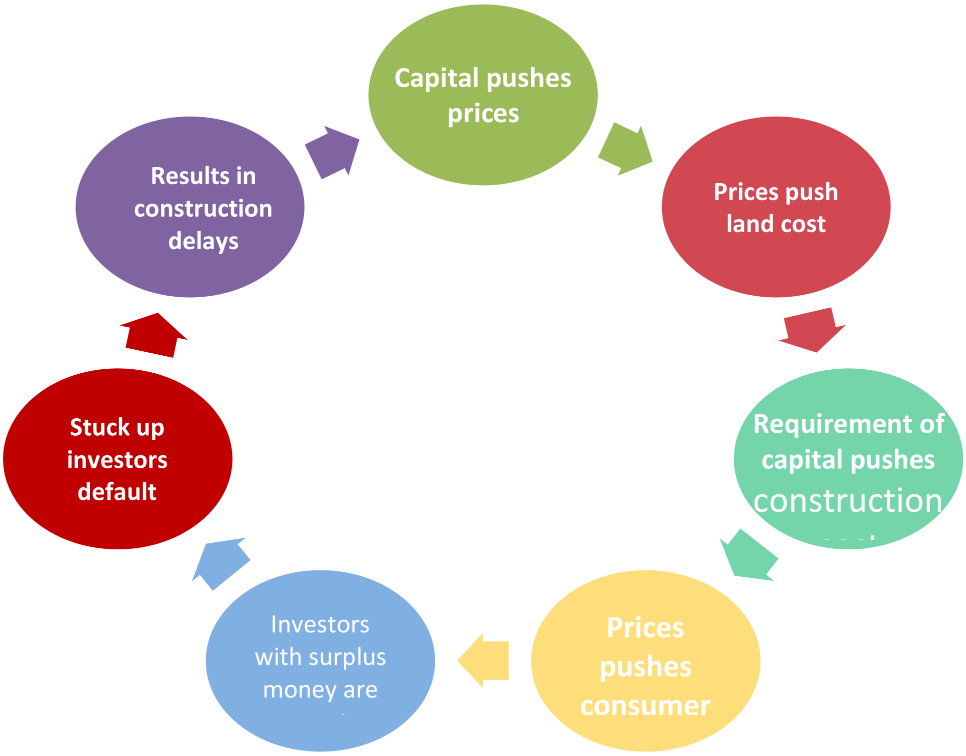
With so much of funding in the country available for over a decade, why is the real estate still mired in issues?

The major cause for this is capital with high cost. Costly Capital does not promote affordable housing but only creates a vicious cycle. Since banks do not provide funds for land purchase, developers are forced to resort to informal sources or private equity for financing. PE funding demands returns to the tune of 25% to 30% p.a, thus making the cost of capital high. Economics of such returns doubles the price in two-three years, making it unaffordable. Only a miniscule portion actually goes in the creation of affordable housing. For the end-product to be affordable, the cost of capital should be low, or else it gets factored into the pricing of the product. Since the major requirement is funding of the land, the Government must acknowledge this and facilitate easier funding through banks and ECBs at low interest rates.

After procurement, optimum mobilisation of resources is the next critical stage. In the past developers used the borrowed finance to launch massive townships and luxury projects and sometimes even to pay off their debts. Not only this, the advances received in booking stage have not gone into completion of those projects but for creating a land bank. With this kind of opportunist behaviour, “housing for all” is a distant reality. To create housing within the reach of common man, developers are now offering affordable housing in the outer limits of the city. This is absolutely not in line with a regular working man's

span of movement. Man lives in the cage of distance and time. If he has to spend more than half his time and additional costs in travelling to work and back, where is the time to enjoy the benefits of affordable housing? This also disturbs the economic balance in the city.

The vicious cycle of capital



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Massive capital inflow created huge inventory

City	FY09	FY10	FY11	FY12	FY13	FY14	FY15	YTD FY16
NCR	63,842	95,833	140,217	160,728	180,956	194,392	226,843	257,527
MMR	76,073	63,479	91,918	105,266	124,049	144,844	169,370	209,384
Bangalore	37,934	34,299	32,419	39,673	36,622	66,151	94,470	110,932
Pune	44,373	33,305	33,633	38,221	41,505	59,595	65,661	90,446
Ahmedabad				43,627	45,766	52,850	58,488	70,684
Chennai	17,204	20,156	28,173	34,568	49,915	47,760	52,415	57,703
Hyderabad	34,645	29,687	24,994	19,008	23,039	28,361	27,793	32,353
Surat					8,368	13,626	22,604	28,303
Kolkata				13,973	15,047	19,550	23,534	26,962
Bhopal						17,683	21,791	25,048
Vadodara					6,590	12,205	20,687	24,950
Lucknow					8,172	5,738	21,144	21,812
Jaipur					10,222	10,794	14,961	15,035
Chandigarh					10,904	13,067	14,013	13,242
Indore					6,501	5,330	8,809	8,262
Nashik					5,474	6,841	8,385	7,410
Bhubaneswar						5,486	4,829	5,381
Patna						4,994	4,858	5,094
Cochin					4,618	2,852	3,887	3,812
Mangalore					4,560	2,708	3,718	3,606
Coimbatore					3,456	1,318	2,382	3,512
Kanpur					2,733	1,890	3,090	2,678
Goa					1,766	2,150	1,956	2,557
Thiruvananthapuram					2,390	968	2,496	1,836
Total	274,071	276,759	351,354	455,064	590,263	720,185	875,688	1,026,693

Source: Liases Foras

Today the inventory across major cities in India stands at one million units, clocking in a growth of approximately **22% on an annual basis**. Meanwhile, housing shortage as per NHB is estimated around 18 million units in Urban India.

Therefore in order to meet "Housing for All", this inventory has to grow 18 times. But the million dollar question is are we prepared for it? Since the available stock is not selling at current prices we have high months inventory. Today, the months' inventory across 26 major cities stands at 40 on an average, and to come to the efficient level of 10, sales needs to grow 4 times. This is a pre-requisite for the inventory to be sustainable. In order to enhance sales there has to be rationalization of prices and economic efficiency. Unless sales gain momentum, market would never be able to take additional stock and there would be retardation in new supply.

Also, there are so many deep-rooted issues which need to be tackled by fine-tuning the urban settings and inculcating policy level changes. There has to be a bridge between demand and supply. The reforms should be such as to bring about a phase of **Discipline as well as Efficiency**.

Recommendations for a better tomorrow

Increasing Government housing in affordable sector:

We cannot just rely on developers to come up with affordable housing. Developers are after all running a business for profit. When sales don't happen, developers can introduce low-priced products for cash flow, but once the economy turns positive, they will again focus on earning profits and lose enthusiasm for those projects. The government has announced the policy for "Housing for All", and it is its primary responsibility to increase the supply for affordable housing.

Incentivizing end-users

The Government must introduce policies where an investor driven market is toned down and actual end-users are encouraged. The current taxation regime encourages second home buyers and offers complete exemption on interest expense. Though the new budget introduced a norm as deduction for additional interest of Rs 50,000 per annum for loans up to Rs 35 lakh sanctioned in 2016-17 for first time home buyers, where house cost does not exceed Rs 50 lakhs, this is but a small step and the gap between demand and supply is huge. More reforms on these lines have to be introduced.

Passing of the Real Estate Regulatory Bill

The Real Estate Regulatory bill got the Union Cabinet's nod in early December and now the entire sector is anticipating that it will come to fruition by 2016. Construction delay is a major hindrance to the Indian Real Estate sector and the cost of delay across 25 major cities impacts 1.32% of the nation's GDP. However, the delay with which it is coming into place cannot be ignored. The most important factor of any regulatory change is right timing. The passing of Real Estate Regulatory Act (RERA) is overdue and it is likely that the Government realises that establishing an effective regulatory mechanism is the need of the hour.

Reduction of execution delays

Delay in delivery of projects can have far reaching consequences on the realty sector. The responsibility of this lies not only with developers but also with the governing authorities. Deviation in project configuration can also happen when the governing authorities are making rules on a flawed basis. Sudden changes in regulations must be avoided and there should be a body to monitor the progress of each project with proper transparency (for instance the confusion in the MMR Development Plan (DP) 2034 had caused delays in approvals). Only then will the goal of timely execution be achieved.

The other side of the story says that many developers delay their projects on purpose. The usual practice of developers raising funds from pre-launches of one project and using them to commence other projects in the pipeline or paying off existing debt is a major issue. This ‘practice’ might work in situations when rapid sales are the order of the day. But in the current scenario where the sales velocity is poor, the money generated from pre-launches and initial sales should be utilized for faster completion of the project and enhancing the pace of sales.

Reform in Land titling system

India’s land titling system is dated and time has come for a much-needed overhaul for the same. Lack of clear land titles and title insurance in India makes it difficult for developers to acquire suitable land parcels and often results in long-drawn and expensive litigation for them.

We advocate the **Torrens system of land titling** in India wherein there is a direct registration of title in a central registry based on identification of land parcels and ownership. It will be the ultimate proof of the ownership of property and bring about simplification and transparency in land dealings. UK, Canada and many East European countries are already following this system. The draft of the Land Titling bill prepared by the Government in 2011, called for creation of a digital infrastructure for land records. Though this a herculean task and demands huge funds, the clearance of this deferred bill is the need of the hour for long-term benefits.

Unique Property Registration number

Currently properties in most of the cities have a unique identification number for taxation purposes. However, once records are digitised and there are proper linkages established between registration, property taxes and titular records, chances of fraud and scams related to property will be very less. This will enhance accountability and transparency. In the Union budget 2016, the government plans to re-launch its national land record digitisation scheme and fund it with Rs 150 crore.

Focus on land productivity instead of monetisation

Urban bodies should focus on land productivity and not on land monetisation. The current approach of land monetization has created urban economic imbalances. In fact, government should help moderating land prices through Public Private Partnership (PPP) model and higher FSI.

Vacant Land Tax

Today current prices of land are not viable. We need moderation in land prices and that is what leads to the requirement of Vacant Land Tax, to make land productive. High land prices pushes away affordable housing and does not cater to the city needs. Land has only two uses: agricultural yield and urban yield. By hoarding on the vacant land, the developers are restricting both these yields and this can be detrimental for the country's economy at large. Moreover, Vacant Land Tax is the only tax that is productive. It is not merely penal instead it is aimed at maximizing yield of land.

If the tax is imposed on unused land, it will encourage landowners to develop vacant and under used land properly or allow others interested in development to take over. The tax on unproductive land will have a positive domino effect for the Government also. In a move to avoid tax, vacant urban land will be utilized for various purposes such as construction and creation of infrastructure on which the Government can impose property tax.

A dynamic approach to policy implementation is the key

It is important to be aware that the real test comes in the implementation of these policies. Though these look extremely promising, achieving desired results is an enormous challenge. While the Government is looking at rationalisation of the demand and supply side, what is most important is rationalisation of price. We definitely need supply and demand efficiencies. However all the corrective measures and policies must be aimed at attaining an economic equilibrium in the long run. This will only be achieved when the sector moves towards maturity and end-users garner a major share as compared to investors. It is also important to note that as a nation's economy passes through phases, so does real estate. The policy that is suitable for a bust phase, may not augur well for the boom phase. **So the government must adopt a dynamic approach. This implies that it must act with alacrity at all times and recalibrate decisions according to the situation.** The best example of this is China. When the market was getting overheated, Beijing introduced regulations to curb purchase of second homes. There was a ban on single households doing so and down payment was increased for others. However, these guidelines were relaxed as the property market began to slow down.

Introduction of Section 80 IBA in the Union Budget 2016, highlights the Government's intention to promote "Housing for All". 100% deduction for profits to developers opting for flats up to 30 sq. metres in Chennai, Delhi, Kolkata or Mumbai and 60 sq. metres in other cities impacts the sector in many ways. There is likely to be a surge of 1BHKs and compact 2BHKs and cities like Pune and Bangalore which are home to many migrants are likely to be the biggest beneficiaries. The Government seems to be on the right track and has instilled a strong belief that it will do complete justice to this ambitious project.

As they say "Rough seas make good sailors", we believe that the real estate sector will sail through with some fine-tuning and a dynamic approach towards policy implementations.

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About Us

Liases Foras:
The pioneer in scientific research in real estate

Strategic Partner: dmg::information

Founded in 1998, Liases Foras is a non-brokerage research centric firm that offers data and advisory services. Our works on industry and scientific prognosis of the local market is highly regarded. We have an organized and structured data source on real estate and property trends in India, which is updated on quarterly basis by primary market survey.

With a team of MBA's, Urban planners, architects, chartered accountants and statisticians Liases Foras is progressively done studies in field of valuation, risk assessment, future forecasting and price behaviour. Our clientele includes leading mortgage companies such as HDFC Ltd, Axis, among others, real estate fund houses, developers, government bodies and leading international research organizations. We are also research partner for CNBC Awaaz real estate awards from 2012 onwards.

In 2015, DMG information, UK acknowledged us as their strategic partners.

Segments, Services and Key Clients

Banks/Housing Finance Companies

Data Service
- Quarterly updated data on residential, commercial &retail
- Online project interface

Analytical Service
- Quarterly Presentation on each city
- Developers performance Rating
- Ad-hoc Due Diligence
- Project Report

Key Clients
HDFC, Axis Bank, GIC Housing, Standard Chartered Bank, TATA Housing Finance, Deutsche

Developers

Research Advisory
- Best Use Analysis
- Feasibility Studies
- Valuation

Data Service
- Online Project Interface

Key Clients
Godrej Properties, Shapoorji & Palonji, L&T Realty, K Raheja Universal, Raymonds, Hiranandani Group, Peninsula Land, Ajmera Realty, Kolte Patil

Funds/NBFCs

Research Advisory
- Feasibility Advisory
- Investment Analysis
- Valuation
- Customized Reports

Data Service
- Online Project Interface

Key Clients
TCG, Indiareit, HDFC Fund, Red Fort, Sun Apollo, Aditya Birla Real Estate Fund, Phil Finance, Edelwies, Real Capita, Avenue Ventures