Task Force Report on Promoting Affordable Housing

Main Report

This Report presents the main recommendations of the Task Force set up to develop transparent qualified criteria for Affordable Housing for circulation to States.

9/1/2012

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2	Smt. Gauri Kumar, Additional Secretary, M/o Environment & Forests (Earlier Principal Secretary , UD, Govt. of Gujarat)	Member
3	Shri G. S. Sandhu, Secretary, State Housing Department, Rajasthan	Member
4	Shri K. Shivaji, CMD, Maharashtra Industrial Development Corporation,	Member
5	ShriAshish Sharma, Commissioner, PimpriChinchwad Municipal Corporation	Member
6	ShriDebashisSen, IAS, Secretary (Urban Development and Town & Country Planning), Govt. of West Bengal	Member
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12	ShriJaitirath 'Jerry' Rao, Value & Budget Housing Corporation Ltd., Bengaluru	Member
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14	ShriRohtasGoel, Chairman & Managing Director, National Real Estate Development Council, New Delhi	Member
15	Smt. Deepti Gaur Mukherjee, Director, M/oHUPA	Convener

PREFACE FROM THE CHAIRPERSON OF THE TASK FORCE

ABBREVIATIONS

AHP	Affordable Housing in Partnership
AHDP	Affordable Housing Development Plan
AHTF	Affordable Housing Task Force
ASI	Archaeological Survey of India
AAI	Airport Authority of India
AVL	Avas Vikas Limited
BSUP	Basic Services for Urban Poor
BAHDL	Bengal Ambuja Housing Development LTD
CDP	City Development Plan
CBDT	Central Board of Direct Taxes
CREDAI	Confederation of Real Estate Developers' Associations of India
DU	Dwelling Unit
EWS	Economically Weaker Section
EMI	Equated Monthly Instalment
ECS	Electronic Clearing Services
EDC	External Development Charges
FAR	Floor Area Ratio
FSI	Floor Space Index
FICCI	Federation of Indian Chambers of Commerce and Industry
GoI	Government of India
GACL	Gujarat Ambuja Cements Ltd

GDCR	General Development Control Regulation
HIG	Higher Income Group
HUDCO	Housing & Urban Development Corporation Limited
HDFC	Housing Development Finance Corporation Limited
HMDA	Hyderabad Metropolitan Development Authority
IHSDP	Integrated Housing and Slum Development Programme
ISHUP	Interest Subsidy Scheme for Housing the Urban Poor
IT	Information Technology
JNNURM	Jawaharlal Nehru. National Urban Renewal Mission
LIG	Low Income Group
LAA	Land Acquisition Act
Mo/HUPA	Ministry of Housing and Poverty Alleviation
MIG	Middle Income Group
MGI	McKinsey Global Institute
MHFC	Micro Housing Finance Corporation Ltd.
MMR	Mumbai Metropolitan Region
NIUA	National Institute of Urban Affairs
NAREDCO	National Real Estate Development Council
NGO	Non Governmental Organisation
NBC	National Building Code
PPP	Public Private Partnership
PPSU	Policy and Programme Support Unit

RAY	Rajiv AwasYojana
SJSRY	SwarnaJayantiShahariRojgarYojana
SNPUPR	Support to National Policies for Urban Poverty Reduction
SRA	Slum Rehabilitation Authority
TDR	Transfer of Development Rights
TOR	Terms of Reference
ULB	Urban Local Body
VGF	Viability Gap Fund
WBHB	West Bengal Housing Board

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DEFINITIONS AS USED IN THIS REPORT

The following terms and definitions are applicable unless otherwise specified.

i. **Affordable Housing:** Individual dwelling units with a Carpet Area of not more than 60 sq. meter, being part of a building complex with multiple dwelling units.

ii. **Built up area and Plinth Area:** As used in this report is, Plinth area shall mean the built up covered measured at the floor level of the basement or of any storey, the same as defined in detail in the IS code - IS 3861 : 2002, "Indian Standard Method of Measurement of Plinth, Carpet and Rentable Areas (Second Revision)".

iii. **Carpet Area for a Affordable Housing Dwelling Unit**: The carpet area as used in this report is the usable and habitable rooms at any floor level (excluding the area of the wall). While the *method of measurement of carpet area* will be the same as in the IS code 3861:2002, it will include carpet area of the living room(s), bedroom(s), kitchen area, lavatory(s), bathroom(s), and balcony / verandah, if provided, in accordance with the definition of the Dwelling Unit/Tenement as provided in the National Building Code, 2005 which is an independent housing unit with separate facilities for living, cooking and sanitary requirements

iv. **Rentable Area**: As used in this report, shall mean the carpet area at any floor level including areas as defined in the IS code - IS 3861 : 2002, "Indian Standard Method of Measurement of Plinth, Carpet and Rentable Areas (Second Revision)".

v. **Developer:** A private, public or joint sector enterprise engaged in the production and sale or rental of housing.

vi. **Public Private Partnership:** A business venture for production and sale or rental of housing involving both private and public sector agencies. Involvement of public agencies may be in the form of active facilitation through supportive policy/ regulation or as equity holders.

vii. **FSI (Floor Space Index) or FAR (Floor Area Ratio):** the quotient obtained by dividing the total covered area (plinth area) on all the floors by the area of the plot:

   i. FAR = Total covered area of all the floors/ (divided by)Plot Area

viii. **Project approval:** All procedures involved in obtaining clearances for an affordable housing project including, but not limited to building permits, land related approvals, environmental clearances and other related approvals.

1. INTRODUCTION

1.1 The Ministry of Housing and Urban Poverty Alleviation, Government of India, constituted a Task Force vide Office Order M11022/1/2009-Housing dated the 26th of November 2010, for developing transparent qualified criteria and a separate set of guidelines for affordable housing in PPP projects for circulation to states.

1.2 The Task Force was set up under the Chairpersonship of Secretary, Ministry of Housing and Urban Poverty Alleviation, and included subject specialists and industry leaders as well as concerned central, state and local body officials. The list of members is at Annex I and II.

1.3 MOHUPA's intention in setting up this Task Force, as elucidated in the Office Order, was to receive a set of considered recommendations which could help the government develop a strategy to address some of the *complexities and ambiguities in building bye-laws*; *consider the incorporation of incremental growth and temporal standards in urban planning density norms*, through FSI and TDR like instruments; and *to streamline the approval system for Affordable Housing projects.*

1.4 The Task Force has held 3 formal meetings, the first on December 30, 2010, the second on June 22, 2011 and the third on September 30, 2011. At these meetings, the Task Force reviewed (a) recommendations of previous committees, (b) previous research studies undertaken on Affordable Housing, and (c) presentations made by external experts/agencies i.e NIUA, FICCI, CREDAI and NAREDCO. The Task Force also mandated the Policy and Programme Support Unit (PPSU) under the Support to National Policies for Urban Poverty Reduction Project (SNPUPR) of the Ministry of Housing and Urban Poverty Alleviation to undertake a Rapid Review on affordable housing and fast track building approval experiences in select states and cities. In addition, two consultations were held with real estate developers by organizing workshops, the 1st one on 25-26th February, 2012 to work out various definitions and possible incentives and the 2nd in on 12th July, 2012 to understand the positive experiences and the challenges faced by developers and housing finance companies already working in low income group segment (Copy of presentations attached in Annexure-XII & XIII).

2. TERMS OF REFERENCE (TOR) AND KEY DECISIONS ABOUT THE TOR

2.1 The initial Terms of reference of this Task Force included the following (attached as Annex I):

a) "The Committee will initially conduct a rapid review of the sanctioning process of development plans for affordable housing in mega cities and tier 2 cities across India, and will locate the institutional, legal, and procedural issues, that hinder and slow down the sanctioning process.

b) With the problematic issues being identified, the Committee will design a two stage Affordable Housing Development Plan (henceforth "AHDP") sanctioning process based upon a "Model AHDP Guidelines" document.

c) The "Model AHDP Guidelines" will be a comprehensive document, of detailed information on necessary, sufficient and desirable criteria - project details, financial and construction related - for AHDPs to be sanctioned, by the different government bodies concerned. The Model AHDP guidelines, will constitute a standard and uniformly applied (hence – transparent) set of directives, against which the suitability of all affordable housing projects can be objectively judged. This document will address strategic, tactical, and procedural issues."

2.2 At the first meeting of the Task Force the Terms of Reference of the Committee was discussed and the outline and content of a Rapid Review of affordable housing practices and special projects in specific states, was finalized. At the second meeting of the Task Force dated June 22nd 2011, the results of the Rapid Review, were discussed. The key findings of the same are presented in the next section.

2.3 Based on review of the presentations and deliberations thereon, the Committee felt that while the overall simplification and streamlining of approval processes constitute an important measure to promote affordable housing, however given that there are significant variations among states and cities, a standardized two stage development and building plan sanctioning process prima-facie, may not be feasible in the short term. It also felt that any such attempt by the Centre would require more detailed examination and consultation than what the Task Force has been assigned/ resourced with. With this approach in mind the Committee decided that it should focus on strategic and tactical issues in promoting Affordable Housing. This was also specifically mentioned by the Chairperson of the Task Force at its third meeting, wherein he requested the members to suggest incentives to catalyze private participation in EWS and LIG housing projects, by using appropriate policy instruments. This approach has been reflected in the addendum of the ToR of the AHTF through an Office order numbered No. M-11022/1/2009-H(Pt/FTS/577) dated 26 September, 2011, which stated that the Committee should incorporate *"Suggestions for various models for incentivizing the private sector to the States especially with regard to reservation of land for EWS/LIG and their involvement under "Rajiv AwasYojana"*(Annex II). In view of the above approach agreed upon by the Task Force, the MoHUPA has already constituted a Committee for Streamlining Approval Procedure for Real Estate Projects[1].

[1]The Committee was constituted vide F.No. O-17034/139/2010-H (Part)/FTS-5524 dated 04/04/2012 under the chairpersonship ofShriDhanendra Kumar (IAS, Retd.) with members from relevant Ministries of the Central Govt., State Govt., representatives from real estate business and Technocrats. The primary terms of reference are:Examine few best practices on streamlining building plan approval processes in cities like, Pune, Hyderabad, Mysore and Indore etc; Study of Bihar model on the obtaining of building plan approvals from certified architects; Suggest a methodology for fast tracking Central/State building clearances; and Suggest a systematic approach through which all cities and states can develop fast track, single window clearance mechanisms giving specific focus on simplification of procedural aspects, formulating single composite form with complete listing of the set of documents necessary to accord sanction by the authorities and automated system for building plan approval with special emphasis on Affordable Housing.

3. FINDINGS OF THE RAPID REVIEW

As mentioned above under the guidance of the Affordable Housing Task Force a rapid review was conducted and presented at the second meeting of the Task Force. The states covered in the review included Rajasthan (see Box I), West Bengal (see Box II), Gujarat, Karnataka, Maharashtra, and Uttar Pradesh. A summary of the policies prevalent in the various states is at Annex III. The key issues covered as part of the rapid review in the context of the ToRs were:

- Review of Affordable Housing Criteria in terms of size, income and sale price
- Institutional, legal, and procedural issues, that hinder and slow down the sanctioning process
- Key incentives provided by States for Affordable Housing

Box I: Models of Affordable Housing in Rajasthan

Model No-1: Mandatory Provisions:

Rajasthan Housing Board to construct at least 50% plots/ houses/ flats of EWS/LIG category in its schemes. Another 20% of the plots/ houses/ flats to be constructed for MIG-A category.

All Urban Local Bodies including Jaipur Development Authority, Jodhpur Development Authority, Urban Improvement Trusts and Municipal bodies to allot/construct at least 25% plots/houses/flats of EWS/LIG category in their residential/ housing schemes. Another 20% of the plots/ houses/ flats to be allotted to MIG-A category.

Private developers to reserve 15% of the dwelling units to be used for EWS/LIG housing in each of their Township/Group Housing Schemes.

Model No-2: Private developers on land owned by them:

The selected developers to take up construction of EWS/LIG flats (G+2/G+3 format) on minimum 40% of the total land set apart for housing scheme under the Policy.

The built up EWS/LIG flats to be handed over to the nodal agency (AvasVikas Limited) at pre-determined prices, to be allotted to the eligible beneficiaries by the nodal agency.

The developer would be free to construct MIG/HIG flats on remaining land as per his choice.

Several incentives offered to developers like double of the normal FAR, TDR facility, waiver of EDC, Building plan approval fee, conversion charges, 10% of the total land allowed for commercial use, fast track approval etc.

Model No-3: Private developers on acquired land:

The selected developer can take up construction of EWS/LIG flats (G+2/G+3) on the land under acquisition by ULBs. The land would be made available to the developer on payment of compensation (Land Acquisition cost + 10% Administration charges). All other parameters to be followed and incentives to the developer would be as per Model No. 2.

Model No-4: Private developers on Government land (For Rental housing or outright sale basis)

Earmarked Government land to be offered free of cost to the developer to be selected through an open bidding process. The developer offering the maximum number of EWS/LIG flats (Built up, G+2/G+3 formats) free of cost to the ULB would be awarded the project. At least 50% houses should be of EWS category.

The developer shall be free to use the remaining land as per his choice for residential purpose with 10% for commercial use.

All other parameters to be followed and incentives to the developer would be as per Model No. 2.

Model No-5: Slum Housing:

The model is based on various schemes approved by Government of India and also on the lines of "Mumbai Model" of slum redevelopment with private sector participation.

Source: Rajasthan Affordable Housing Policy, 2009

Box II: Joint Sector Model –Udayan by Bengal Ambuja

"Udayan-The Condoville" is a partnership project , which in the late 1990s and early 2000s,was considered as one of the most successful PPP housing projects. The Model is based on the principle of cross-subsidization. M/S Gujarat Ambuja Cements Ltd (GACL), a private sector company came forward as a partner to the government, having sufficient resources and expertise, to implement housing projects on commercial basis in the name of Bengal Ambuja Housing Development LTD(BAHDL).

The WBHB and the GACL, each hold 49.5% equity in this joint venture company and the remaining 1% is offered to the public. The land assembly and acquisition for the project was the responsibility of the WBHB. The BAHDL was responsible for the overall formulation, implementation and monitoring of the project and the responsibility of GACL was the overall management of the affairs of the company including monitoring and supervision of entire construction activities in conformity with the statutory requirements.

For financing the construction of dwelling units, HUDCO was approached by BAHDL and HUDCO provided project finance . Beside the above agencies, an NGO named "Mass Education" has been involved in the project maintenance activities. Home Trust Finance Company Ltd, a subsidiary of Gujarat Ambuja Cements Ltd (later acquired by HDFC), had also been involved in the project, though indirectly, to provide housing finance to the beneficiaries.

Source: Interviews and various documents including the Workshop Report on "Public private partnerships for urban housing in India", National Conference on Housing and Human Settlements, organized by Ministry of Housing & Urban Poverty Alleviation, 17-18 November, 2006

3.1 Review of Affordable Housing Criteria:

3.1.1 The rapid review has brought out that, each state has adopted different standards/norms of size and sale price of dwelling unit, in their definitions for Affordable Housing. At the central government level various government schemes and committees have adopted different definitions from time to time. As per the real estate industry, Affordable Housing is used loosely to refer to projects in the periphery of large cities, which have smaller DU sizes and where the sale prices range between Rs. 5 – 15 lacs. It was also found that Banks and Housing Finance Institutions use a set of specific income related ratios such as house price to income ratio and maximum EMI to gross household monthly income, etc to calculate the borrowing capacity of clients, thereby deciding the price of DUs which are affordable to individual clients. The various definitions are discussed below and a comparative table of the criteria that constitute the definition of Affordable Housing in various states is at Annex IV.

3.1.2 Central Government definitions

3.1.2.1 A 'High Level Task Force on Affordable Housing for All' under the Chairmanship of Shri Deepak Parekh, Chairman of the Housing Development Finance Corporation Limited (HDFC), was set up by the Ministry of Housing and Urban Poverty Alleviation in early 2008. The report of this Committee defined Affordable Housing for households belonging to EWS and LIG sections respectively as:

"A unit with a carpet area most likely between 300 and 600 sqft, with (i) the cost not exceeding four times the household gross annual income (ii) EMI/rent not exceeding 30 percent of the household's gross monthly income".

3.1.2.2 As per the Affordable Housing in Partnership Scheme guidelines, which is a scheme launched by the Ministry of Housing and Urban Poverty Alleviation, Government of India, in 2009, affordable houses are defined as houses ranging from about 300 square feet (super built up area) for EWS, 500 square feet for LIG and 600 square feet to 1200 square feet for MIG, at costs that permit repayment of home loans in monthly instalments not exceeding 30% to 40% of the monthly income of the buyer. In terms of carpet area, an EWS category house would be taken as having a minimum 25 square meters of carpet area and the carpet area of an LIG category house would be limited to a maximum of 48 square meters. The carpet area of an MIG house would be limited to a maximum of 80 square meters.

3.1.3 State Government definitions

3.1.3.1 Definitions of Affordable Housing vary from State to State and are based on the definition of income levels and/or sizes of the dwelling units. The Rajasthan Housing Board defines dwelling units for EWS households (monthly income uptoRs. 3300) as flats with a ceiling cost of Rs. 1.9 lakh with a super-built up area of 325 sq. ft. (with 2 rooms, a kitchen and bathroom) and flats for LIG households (monthly income Rs 3,301 to 7,500)as flats with a ceiling cost of Rs. 3.25 lakh with a super-built-up area of 500 sq. ft. (with 3 rooms, a kitchen, bathroom and balcony).

3.1.3.2 The MMRDA Development Control Regulations, implemented in the Mumbai Metropolitan Region (MMR), stipulate a size criterion of 225 sq. ft. - 270 sq. ft. for affordable housing units. In case of West Bengal, there is no codified policy for "Affordable Housing" but under the joint venture model, EWS flats are those that have a minimum Plinth area of 200 square feet and maximum price of Rs 1.75 lakhs and are allocated to beneficiaries having a monthly income uptoRs 10,000 or less. LIG flats are those that are allocated to beneficiaries with a monthly income betweenRs. 10,001-15,000 and have a minimum plinth area of 400 square feet and maximum price of Rs 4.10 lakh.

3.1.4 Private Real Estate Sector

3.1.4.1 Over the last few years, a number of developers have entered into the low cost housing segment by offering houses of size between 200 square feet and 600 square feet and price varying fromRs. 4 lakhs toRs. 10 lakhs depending on the location of the project. However the prices of the EWS/LIG units and the households that are being targeted are not strictly as per the limits/norms specified by GoI or State Governments and the designs vary widely in terms of rooms and facilities.

3.1.5 Others

3.1.5.1 Independent advisory organizations use their own definitions for affordable housing. A McKinsey Global Institute[2] report supports variable standards for affordable housing and proposes that the definition should be based on varying incomes and family sizes, rather than using a "one size fits all", definition. Their report defines the market for affordable housing to consist of a 'Deprived' income segment which as defined in that report are the urban households earning less than Rs 90,000; and the 'Aspirers' income segment which as defined in that report are the urban households earning between Rs 90,000 and Rs 2 lakhs, annually.

[2] India's Urban Awakening, April 2010

3.1.5.2 HDFC evaluates the maximum purchasing affordability as 5.1 times the annual income of a household. However in practice it has been found that for most housing finance institutions the affordability multiplier for EWS and LIG categories, is much lowerat close to a maximum of 3 times the annual income.

3.1.5.3 KPMG's report[3] on affordable housing projects in India,categorises developments according to income levels and house plans. It mentions that- EWS households, with annual incomes of less than Rs. 1.5 lakh access housing units typically less than or equal to 300 sq. ft., with limited amenities and located on city peripheries and are often financed by Micro Finance Institutions. The report mentions that-LIG households with annual incomes between Rs 1.5 lakh – 3 lakh access housing which have basic amenities, are between 300-1200 sq. ft. of built up space, and are often located within the city and financed by the formal banking sector.

3.2 Institutional, legal, and procedural issues, related to the project and building plan sanctioning process

3.2.1 In an effort to document the list of permits and to analyze the basis for the scrutiny for each of the permits a framework for the assessment and diagnosis was developed by the AHTF which covered *(a) Greenfield situations, normally in peri-urban areas where land cost is the least but time taken to get permissions for land use status and environmental clearances etc. is the greatest (b) Non-municipal land where no layout design is available and sometimes the land use status and the status as per revenue records is not in consonance; (c) Non-municipal land where the basic layout has been designed by the development authority concerned and some basic level of infrastructure is present and (d) Existing vacant land under municipality where the land cost is usually the highest*. The Rapid Review scanned secondary sources and undertook a set of interviews with both public and private sector stakeholders to arrive at a comprehensive list of permits needed in each of the

[3]KPMG Advisory: "Affordable Housing – A key growth driver in the real estate sector?, 2010"

states under the study. The key findings of this assessment are discussed in the following two sections.

3.2.2 List of approvals required

3.2.2.1 As regards the approval processes the various permits are based on i) tier of government which is responsible for the permit; ii) objective of the scrutiny and iii) basis of the scrutiny. It was found that the long list of permits often exceeding fifty in number for each state/project could be classified into eight categories as presented in Table 1 below. The Task Force opined that such a categorization could lead the way for redesigning and simplifying the procedures for building permits. However the Task Force felt that further development of this area was not possible given the width and mandate of the Task Force, but proposed that the Central Government should examine ways to incentivize state governments to focus on reforms of the building plan approval process.

Table1: Broad Categories of Approvals for Housing Projects across states

S. No.	Categories of approvals	Tier of Government	Objective of scrutiny	Basis of scrutiny
1	Ownership (Registration of properties)	State government	Establish ownership	Verification of past records
2	Permit for conversion (Revenue department)	State government	Allow non-agricultural urban uses	Conformity to Master Plan/ Regional plans/ access to infrastructure, availability of water, power etc.
3	Land use verification (Town Planning department)	Parastatal/ Local govt./ State government	Conformity to Master/ Zonal/ layout plans	Master/ Zonal/ Layout plans

4	Building bye laws (Municipal corporation/dev authority)	Parastatal/ Local government	To protect public health, safety and general welfare as they relate to the construction and occupancy of buildings and structures	Various codes and standards as applicable in a particular jurisdiction
5	NOC from other departments	State government	To protect public health, safety and general welfare as they relate to the construction and occupancy of buildings and structures	Various codes and standards as applicable in a particular jurisdiction
6	Physical inspection on Commencement of Project	Parastatal/ Local government	To verify compliance with approvals especially for building components which are not visible after construction is completed	Site inspection
7	Occupancy and Completion	Parastatal/ Local Govt	To verify compliance with approvals after completion of construction	Site inspection
8	Central government clearance	National Government (delegated to state governmentfor smaller projects)	Adherence to national policies, especially the policiesregardingenvironment, pollution, air-ports, protection of heritagemonuments, etc.	Environmental impact assessment and mitigation plans, minimum standards, etc.

3.2.3 Differential urban planning regimes

3.2.3.1 The Rapid Review also revealed that differing urban physical planning systems in the states, have a direct bearing on the plan approval processes. Since the Master Plan is a statutory document that establishes development norms, the building plan approval process can be more easily streamlined in cities that have operational master plans as some of the more critical and controversial issues are generally resolved at the Master Plan level. The Rapid Review found that not all states and large cities have/make Master Plans (such as West Bengal). However even in states and cities that have operational master plans, it also found that in many of these cases the Master Plans are not created on the basis of revenue maps, e.g Delhi and Rajasthan. This practise results in development of Master Plans which are essentially conceptual and do not contribute significantly in making the verification of land parcels and their use simpler at the building plan approval stage. Many such states do try and resolve this issue through the zonal planning process, however there are significant time lags between notification of Master plans and notification of zonal plans, reducing the effectiveness of the Master Plan with regard to approval of building and housing projects. There are only a handful of states such as Madhya Pradesh, Karnataka, Gujarat and a few others where the Master Plan are made on revenue plans and where the Master Plans can help in determining a number of issues related to building plan approvals, thereby directly contributing to quickening the Building Plan approval process.

3.2.3.2 The Rapid Review also found that some cities have reengineered their processes and have moved to streamlined Building Plan approval processes for housing through a "single window system". For example, the Greater Hyderabad Municipal Corporation has introduced building permission under what is called the `Green Channel' since 2010 to grant building plan approvals. This was implemented for buildings up to Ground+3 floors (12 meters height) or plots within 1,000 square meters in the approved layouts of Hyderabad Metropolitan Development Authority (HMDA), (Box III). The Pune Municipal Corporation has also successfully re-engineered their building permit processes integrating computerized procedures for submission and verification of documents and drawings through "single window system" (Box IV**)**.This system ensures smoother approval of building plans within a fixed time, through the consent of the stakeholders in a transparent manner. Recently, Indore has also started implementation of a similar automated system.

Box III: Green Channel: Hyderabad

The city of Hyderabad has radically revised its building regulations, effectively eliminating the concept of FAR/ FSI as well as coverage, and replacing it with a system of simple controls for setbacks related to road width and height. The quantum of built up area is controlled only by these simple controls . This is an interesting experiment in allowing the market to determine viable density.

The GHMC had also introduced building permission under `Green Channel' on October, 2010 to dispose of building applications and also to eliminate malpractice. It was implemented for buildings up to Ground+3 floors (12 meters height) or plots within 1,000 square meters in the approved layouts of Hyderabad Metropolitan Development Authority (HMDA). As per the norms, applications have to be submitted through registered architects, who would check all the drawings of the proposed buildings and other documents whether they are prepared as per the building rules or zonal regulations for releasing the permission. As per this system, the official concerned would be penalized at the rate of Rs 50 per day, if there is any delay, in clearing files till the permission is granted. The amount would be recovered from the salary of the officer concerned. Most importantly, no additional fee would be levied on builders under this channel.

Box IV: Automated building plan approval: Pune

The Pune Municipal Corporation has re-engineered their building permit processes integrating computerized procedures for submission and verification of documents and drawings through a 'Single Window' system. It has ensured smoother approval of building permission within a fixed time, through the consent of the stakeholders which is a transparent mechanism to approve the Plans. The most important aspect of this approach is the adoption of workflow automation, reducing human error, increasing accountability and enhancing efficiency. After adopting the new system, time required for sanctioning of building proposal has been reduced to 21 days from 45-50 days.

3.3 Key incentives provided by States for Affordable Housing

3.3.1 The Rapid Review was also successful in informing the Task Force of the various EWS/LIG Housing schemes and policies in the states studied and the incentives that they provide for Affordable Housing. A summary of the key incentives provided for through different state policies is at Annex III and it can be seen that while many States Governments have Affordable Housing policies only a few have proceeded with creating schemes for operationalizing their policies. Some of the key features of two policies/schemes are presented below.

3.3.2 Rajasthan Affordable Housing Policy – 2009, provides a set of incentives for projects that are approved under it, which include (a) Additional FAR – Double of the permissible FAR for the relevant zone along with the Transferable Development Rights (TDR); (b) Waiver of External Development Charges, Building plan approval fees and Conversion charges; (c) allowing Commercial use upto 10% of plot area (i.e increased cross subsidy possibility); (d)Fast track approval of the project – within 30 days. The policy also ensures buy back of the Affordable Dwelling Units by the nodal agency of the State Govt. at pre-determined price.

3.3.3 Madhya Pradesh Housing & Habitat Policy 2007,does provide for additional FSI in projects which provide higher developed areas for EWS/LIG housing as well as one time transfer of additional FAR to another location prescribed under a TDR Scheme, however the policy is yet to be operationalized.

4. RECOMMENDATIONS OF THE TASK FORCEON DEFINITIONS

Based on results of the findings of the Rapid Review presented above and a series of consultations and written communications from various State Governments and associations of housing developers, the Task Force has compiled a set of recommendations which are presented in the section below. The recommendations section firstly states the Task Force's position regarding the definition of Affordable Housing; the next sections dwells upon supply and demand side interventions that State and the Central Government should considerproviding to Affordable Housing projects; followed by another section which puts forward its recommendations with respect to the revamping of the Affordable Housing in Partnership Scheme (AHP) of the Government of India. The Task Force believes that these sets of recommendations if implemented would help the development of a robust Affordable Housing sector in the country.

4.1 Affordable Housing criteria and core definitions

4.1.1 After studying different Affordable Housing criteria and definitions the Task Force felt that the Government of India should adopt a broad and inclusive set of criteria and could leave it to states and specific schemes to incorporate, more specific criteria as may be felt necessary for implementation in specific contexts. The Task Force suggests that a set of "core criteria" should be adopted, which should form the basis of all policies/schemes at national as well as state level to ensure that there is a synergy and a shared objective across all governmental efforts aimed at the sector. The "core criteria" suggested in these recommendations are in terms of ranges so as to allow for some flexibility to implementing agencies to respond to ground realities and market conditions in the vast diversity of cities across the country.

4.1.2 The recommendations of the AHTF on the "core criteria" that should make up the definition of Affordable Housing projects are, a) Sizes of EWS and LIG Dwelling Units based on Carpet Area; b) Income ceiling of EWS/LIG households; and c) Cost ceiling of dwelling units, these are explained in detail in the following sections.

4.2 Sizes of EWS and LIG Dwelling Units and method of measurement (Carpet Area or Rentable Area[4]):

4.2.1 As revealed by the rapid review definitions based on area as shown in Annexure IV have significant variations and hence need clarification and standardization essentially along two aspects:

i. Method of Measurement i.e Carpet area, Built-up area or Super Built-up area, that should be the basis of the definition of Affordable Housing units.

The Task Force notes that the terminology 'Carpet area' has been used in the Affordable Housing in Partnership guidelines, the Rajiv AwasYojana guidelines ("25 sqmtrs carpet area, including, two rooms, balcony, a water sealed toilet, bathroom, individual potable water connection, and space for a kitchen"), as well as in guidance around the JNNURM. It has also been used in the Draft Real Estate Bill.

The Task Force has taken into consideration, the IS code (IS 3861 : 2002) as drafted by the Bureau of Indian Standards (BIS) and as presented in the "Indian Standard Method of Measurement of Plinth, Carpet and Rentable Areas (Second Revision)"which lays out the method of measurement of Plinth Area, Carpet Area and Rentable Area in residential buildings. It has also considered the National Building Code[5] of India (NBC), 2005. On reading them together and based on discussions with engineers and planners it has established that

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[4] "Rentable Area" means the carpet area at any floor level, including the carpet area of kitchen, pantry, store, lavatory, bathroom, fifty percent of unglazed verandah and hundred percent of glazed verandah, in accordance with the provision of the Indian Standard-Method of Measurement of Plinth, Carpet and Rentable Areas of Buildings, IS 3861:2002, formulated and published by the Bureau of Indian Standards and CDBT notification No. 1/2012 [F.No.142/24/2011-SO(TPL)] dated 2-1-2012 on affordable housing under Section 35 AD of Income Tax.

[5] National Building Code, 2005 Annex C (Clause 12.20), Special Requirements for Low Income Housing in Urban Areas, C-3 General Building Requirements

- A Dwelling Unit/Tenement is defined, by the NBC code, as an "independent housing unit with separate facilities for living, cooking and sanitary requirements."
- the Method of Measurement of Carpet Area for residential buildings as per IS 3861 : 2002; excludes facilities for cooking and sanitary requirements.

The Task Force would therefore like to recommend that for defining *Affordable Housing Dwelling Units* Carpet Area should be used as the universally applicable Method of Measurement. Further that since Dwelling Units are being defined as against residential buildings the Carpet Area calculation should includeseparate facilities for living, cooking and sanitary requirements which are a minimum of two rooms, a water sealed toilet, bathroom, individual potable water connection, and space for a kitchen.

ii. With respect to Maximum and Minimum area for each Affordable Housing Dwelling Unit category.

For calculating the minimum area of DUs, the Task Force recommends following the National Building Code[6] of India (NBC), 2005 draftedby the BIS, be used as the determining guidance to calculate the minimum Carpet Area for dwelling units of EWS category. The Task Force has taken into consideration that:

- MoHUPA Schemes (JNNURM, AHP, RAY) provide funding support to Dwelling Units based on the Carpet Area inclusive of living, cooking and sanitary requirements as well as balconies.
- JNNURM and RAY Schemes provide minimum size of housing unit to be provided on ownership basis to be of Carpet Area of 25 sq.m inclusive of balcony,

[6]National Building Code, 2005 Annex C (Clause 12.20), Special Requirements for Low Income Housing in Urban Areas, C-3 General Building Requirements

- The NBC code, specifies the inclusion of balcony to be an optional[7] part of the Dwelling Unit. It also lays out minimum requirements in relation to dwelling units that they should have at least two habitable rooms, where the total area of both the rooms is not less than 15.5 sq.m; for separate water closet and bathroom the minimum area should be 0.9 sq.m and 1.2 sq.m and for combined water closet and bathroom it could be 1.8 sq.m and the minimum area for the kitchen should be 3.3 sq.m. It also states that *where provided* the minimum width of the Balcony should be 0.9 m and a maximum of 1.2 m.

The Task Force recommends that to establish the minimum size of a habitable EWS dwelling unit, the absolute minimum size of areas as presented in the NBC code should be followed. This is recommended, as the Task Force is clear that while larger areas and more facilities, such as store and balcony (increasingly balconies are not provided in high density cities like Mumbai) may be desirable, the increase of costs related to these facilities adds to the cost of the dwelling units and makes them even more unaffordable for the EWS segment. With this in mind the Task Force recommends that the minimum requirements for anEWS unit and the corresponding minimum area should beas below:-

Area of 2 rooms	15.5 m2
Area of Toilet	0.9 m2
Area of Bath	1.2 m2
Area of Kitchen	3.3 m2
Total	20.9 m2

[7] As per the *National Building Code of India, Annex C (Clause 12.20), C-3 General Building Requirements, C-3.3.4 Balcony*, while refereeing to the minimum dimensions of the Balcony mentions "where provided", thereby indicating that it is not an essential requirement of a Dwelling Unit/Tenement.

Therefore the minimum Carpet Area of Affordable Housing Dwelling Unit for the EWS category should be taken as 21 m2, excluding balconies/verandah which is not essential requirement as per the NBC code.

4.2.2 In absence of the criterion of maximum Carpet Area, the developers may resort to constructing DU with larger area for EWS which will make them unaffordable for the target group. So, to discourage such a tendency and to ensure that concessions and subsidies for the EWS segment are well targeted a maximum Carpet Area also needs to be defined. The recommendations in this regard is summarised in section 4.2.4.

4.2.3 Moreover, the permissible maximum loading on the Carpet Area to calculate Built-up area and Super Built-up area needs to be established to make it transparent, especially for the Affordable Housing dwelling units, as they may receive concessions and subsidies from governments. The BIS Code IS 3861 : 2002, disallows the use of Super Built-up area, but in practise sale price calculations by developers are based on varying methods of measurement of the Super Built-up area and is therefore directly linked to the income segment to which the dwelling unit is affordable. The Task Force therefore recommends that while Developers move to pricing based on built up area or carpet area a maximum ratio has to be established for Affordable Housing dwelling units which are approved/supported by government. This will also help make the existing Affordable Housing Policy of some states (e.g Rajasthan) that are using Super-built up area as their criterion, compatible. Considering general practices, feedback from developers and local bodies and as per actual calculation of dwelling units of EWS and LIG category, a 25% loading is recommended as the maximum permissible loading on carpet area to calculate Built-up Area and 40% to calculate Super-built-up (Saleable) area[8].

4.2.4 The carpet area for EWS DUs is defined as 21-27 sqm and the range of 28-60 sqm for LIG is quite large, which could allow developers to avoid constructing DUs with lower

[8]Calculation on the basis of Affordable Housing Policy of Rajasthan which prescribes plans for EWS & LIG DU, are shown in Annexure-VI & VII

area in the range and thereby deprive certain section of the LIG category to afford houses. So, it is recommended to divide the range as LIG-A for carpet area between 28-40 sqm and LIG-B for carpet area between 41-60 sqm. This will also enable projects to avail the benefits of Income tax and Service tax under Affordable Housing in Partnership scheme, where the maximum limit of area for LIG dwelling units has been capped at 60 m2 by definition itself. Ministry of Finance, GoI (Department of Revenue) vide Notification No. 25/2012-Service Tax has exempted the taxable services by way of construction pertaining to low cost houses under the 'Scheme of Affordable Housing in Partnership' up to a carpet area of 60 square metres. Likewise, CBDT Notification No. 1/2012 [F. No. 142/24/2011-SO (TPL)] dated 2-1-2012 stipulates rebate for Affordable Housing under Section 35 AD of Income tax act and as criterion has the maximum limit for EWS dwelling units (in other, i.e. non metro cities) as 60 Sq m. In summary therefore the Task Force recommendations on the size of Affordable Housing Dwelling Units are as follows:

- For Economically Weaker Section (EWS): 21- 27 sq.m Carpet Area
- For Lower Income Group (LIG-A): 28-40 sq.m Carpet Area
- For Upper Lower Income Group (LIG-B): 41-60 sq.m Carpet Area For Middle Income Group (MIG): 61-80 sq.m Carpet Area

4.3 Income criteria based on Income ceiling of households:

4.3.1 The existing income ceiling of EWS/LIG households, as notified by MoHUPA in March 2010[9] was based on 2008 prices. The Task Force understands that there is a regular process that is followed in the Ministry for revision of the income ceiling of EWS/LIG Households. This Task Force recommends that a regular and systemized process is instated in the Ministry that meets regularly and monitors the adequacy of the income ceiling requirements from time to time through commissioning of studies

[9] Annexure-VI

to track the progress. It should also aim to develop a transparent indexing method that could adjust these income on an yearly basis.

4.3.2 In regard to the current levels of income ceilings the Task Force undertook a set of indexing exercises aimed at determining a reasonable increase in the maximum income ceiling for EWS and LIG household income. The various references and indices used to determine a legitimate recommendation for the increases were a) increase in the average urban per capita income b) the growth in minimum wages for non-agricultural workers; c) based on residential price movement trends as captured by the RESIDEX index maintained by the National Housing Bank; d) based on expenditure parameters: monthly per capita consumer expenditure (MPCE) as captured by the NSSO; e) based on general price movement trends (overall demand-supply-price dynamics): consumer price index (CPI) and/ or consumer food price index (CFPI). Please see Annex VII for details.

Table 2: Estimation of EWS and LIG Household Incomes, 2012 based on projections of different indices

Parameter	Index/Reference	Maximum EWS HHI, 2012	Maximum LIG HHI, 2012
Income	Growth in Per Capita Income (PCI)	7477	14953
Income	Minimum Wages for non-agricultural workers	8000	16000
Expenditure	Monthly Per Capita Expenditure (MPCE)	8500	17000
Price: residential	NHB's RESIDEX	7619	15238
Price: General	Consumer Price Index	6796	13592
Price: General	Consumer Food Price Index	6762	13524

4.3.3 Based on the results of calculations as presented in the Table above the maximum Household Income for the EWS category is recommended to be Rs. 8,000/- per month. Following this the recommended income ceiling for EWS and LIG have been calculated by increasing the existing ceilings by 47.4% and then rounding off. The Income ceilings have also been recommended for a new category of LIG A and LIG Bwhich have been calculated on the basis of % of area increasei.e (60-48)/48 = 25% and increasing proportionally the respective income ceiling for LIG and rounding off i.eRs 16000/- + 25% x Rs 16000/- = Rs 20000/-(with an increment) .

Table 3: Recommended income ceiling

Category	Existing	Recommended
For EWS	UptoRs 5000/-	Rs 8000/- per month per household
For LIG-A	Rs 5001-10000/-	Rs 8001- 16000/- per month per household
For LIG-B:	Not defined	Rs 16001- 20000/- per month per household

4.4 Borrowing capacity and cost ceiling of dwelling units:

4.4.1 Borrowing capacity of beneficiaries is critical for many reasons as it helps define the affability limits of the EWS/LIG segments. While on one hand, a higher borrowing norm adopted by financial institutions could lead to faster and quicker penetration of home ownership in the weaker segments, on the other hand it could also lead to non-repayment and crisis in the housing finance sector. Deepak Parikh Committee in 2008 recommended that 40% of the gross monthly income of the borrower could be a benchmark for the maximum Equated Monthly Instalments (EMI). The borrowing capacity as per housing finance industry practice is also restricted to 40 times the gross monthly income of the household. During the consultations with housing finance companies it emerged that in higher income categories this benchmark was often breached, and often even higher percentage of gross monthly income could be accepted, however, in the Affordable Housing segment this ratio was rarely achieved. Other than this input a KPMG report in 2010 has suggested a 5.1 ratio to be the maximum limit of house price to annual income to be followed by housing finance institutions. This high ratio in today's context seemsaspirational. However, this may be achievable in individual cases where a larger share of the house price is mobilised upfront by the borrower, or there is a capital subsidy scheme by the government , or where there are subsidised interest ratesavailable for these category of borrowers.

4.4.2 Considering present cost of dwelling units, an affordability gap by considering the aspirational ratio of 5 times the annual income as calculated by this Task Forceis presented in the Table 4: Analysis of Affordability Gap, below.

4.4.3 The Task Force therefore recommends an aspirational goal of house price to annual income ceiling could be between 3.5 and 5 times gross annual income, depending on the upfront contribution made by the beneficiary and the interest rate.

Table 4: Analysis of Affordability Gap

SL NO	PARA NO.	CRITERIONS	EWS		LIG-A		LIG-B	
1	4.1 .1 a)	**Carpet area (Rentable area) in Sqm**	**21**	**27**	**28**	**40**	**41**	**60**
2		**Super-built-up area (loading 40%)**	29.4	37.8	39.2	56	57.4	84
3		**Sale price Rs 1600/Sqft (See Annexure-IX) (Rs 17,216/Sqm) in Rs**	5,06,150	6,50,765	6,74,867	9,64,096	9,88,198	14,46,144
4		**Average sale price**	**5,78,458**		**8,19,482**		**12,17,171**	
5	4.1.1 b)	**Monthly Income upto in Rs**		**8000**	**8,001**	**16,000**	**16,001**	**20,000**
6		**Total Annual Income in Rs**		96000	96012	192000	192012	240000
7	4.1.1 c)	**Affordability limit 4 times Annual Income in Rs**		384000	384048	768000	768048	960000
8		**Average affordability limit**	**3,84,000**		**5,76,024**		**8,64,024**	

9		**Affordability gap (Row 8-4)**	**-1,94,458**	**-2,43,458**	**-3,53,147**

4.4.3 The Task Force therefore has also calculated the level of subsidies that would need to be provided to be able to meet the affordability gap between the house price and monthly incomein the EWS and LIG A and LIG B categories. Two types of subsidies i.e. Capital subsidies which will reduce the cost of housing as well as Interest subsidies which will increase the borrowing capacity, will be required to target housing for the EWS/LIG sector. The Task Force has also calculated the impact of representative subsidies on the affordability multiples and these are presented in Table 5 below.

As may be noted from the table 5, without capital and interest subsidies, the affordability mutiples are only 3.47 times, implying that people within the income ceilings proposed for EWS and LIG segments cannot afford the dwelling unit. This is because as in the case of no subsidies being available to the EWS with a monthly income of Rs. 8000/-, the maximum loan the household could take would be Rs. 8000 X 40 = 3.2 lakhs plus an own contribution for availing the loan would be 20%/3.2 lakhs which is 64,000/-, which is a total of 3.84 lakhs, while the cost of the EWS dwelling unit is 5.78 lakhs, resulting in an affordability gap of 1.94 lakhs. A similar situation of a significant affordability gap is also faced in LIG A and LIG B categories at affordability mutiples of 3.47. .The calculations below point out that both capital and interest subsidies are required. It also suggests that acapital subsidy of Rs 75,000, Rs 1 lakh and Rs 1.25 lakh would be required for EWS, LIG-A and LIG-B units respectively especially if an interest subsidy of 5% is available for loans uptoRs 5 lakhs. By providing capital and interest subsidies, the affordability multiple for EWS segment can be increased to 5.33 and that of LIG-A and LIG-B segments to 5.06[10]and 4.52 respectively, making the

[10]This is because as in the case of the LIG A with a monthly income of Rs. 16,000/-, the maximum loan the household could take would be Rs. 16,000 X 40 = 7.68 lakhs, plus an own contribution for availing the loan would be 20%/7.68 lakhs which is 1.54 lakhs, while the cost of the LIG A dwelling unit is 8.19

dwelling units affordable to the respective categories.The impact for the LIG segments is lesser since the ISHUP subsidy has been considered only for loans uptoRs 5 lakhs

Table 5:Affordability ratio of unit price to income calculations

	EWS		LIG - A		LIG - B	
Unit Cost in Rs	578458	578458	819482	819482	1217171	1217171
AHP Subsidy in Rs	0	75000	0	100000	0	125000
Net Cost in Rs	578458	503458	819482	719482	1217171	1092171
Own Contribution %	0.20	0.20	0.20	0.20	0.20	0.20
Own Contribution in Rs	115692	100692	163896	143896	243434	218434
Loan in Rs	462766	402766	655586	575586	973737	873737
Yearly EMI Payments in Rs						
At 12% interest rate	66,648	58,006	94,417	82,896	1,40,238	1,25,836
With ISHUP Subsidy of 5% on loan upto 5 lakhs	49,909	43,438	76,332	64,811	1,22,153	1,07,751
Income Ceilings EMI = 40% of income						
At 12% interest rate	166619	145016	236044	207240	350594	314589
With ISHUP Subsidy of 5% on loan upto 5 lakhs	124773	108596	190831	162027	305381	269376
Affordability Multiple (Unit Price/ Income)						
At 12% interest rate	3.47	3.99	3.47	3.95	3.47	3.87
With ISHUP Subsidy of 5% on loan upto 5 lakhs	4.64	5.33	4.29	5.06	3.99	4.52

The Task Force therefore notes that at current unit prices, EWS and LIG segments cannot afford housing and capital and interest subsidies are required. Based on subsidy assumptions as above, the affordability multiple can be increased upto5.33 for EWS segments, thus making EWS housing affordable for those within the proposed income ceilings. Based on the assumed subsidy pattern, the Task Force recommends

lakhs. If this is supported by a capital subsidy of Rs 1 lakh and a interest subsidy of 5% over 5 lakhsit could result in the house becoming affordable to an LIG A category borrower.

that an affordability ratio of unit price to income can that should be pursued for Affordable Housing projects should be 5 times.

5 RECOMENDATIONS ON POSSIBLE INCENTIVES FOR THE AFFORDABLE HOUSING SECTOR

5.1 As explained in the earlier in Section 2, the Task Force decided to focus on possible incentives to the Affordable Housing sector. In reviewing the Affordable Housing sector it has built its recommendations on a rapid review of State Government policies, practices and projects, supported by SNPUPR and assisted by Alchemy Consultants; an overview study of international experiences of public investment in housing undertaken by IDFC and supported by SNPUPR; on detailed discussions with a variety of stakeholders including Janaadhar, FICCI, NIUA, CREDAI, Value and Budget Housing Corporation, NAREDCO DBS Builders among others, and a review by the Monitor Inclusive Markets Group, funded through the SNPUPR project.

5.2 The following sections lists and explains the rationale for a host of incentives that could be provided to catalyse creation of Affordable Housing for all. The incentives that could be provided are on the Supply side, i.e. to agencies that are involved in the provision of Affordable Housing, so that they are incentivised to ramp up the Supply and the Demand side, i.e. to the beneficiaries, to give a boost to their affordability so that the need for Affordable Housing is translated to an effective demand which could then drive the market of suppliers of Affordable Housing to produce more such units. Each of the two categories of Supply side and Demand side are further classified into (a) financial and (b) non-financial incentives. Financial Incentives are those which involve direct and quantifiable monetary outlay from governments and non-financial incentives are those which do not need direct monetary outgo from governments.

5.4 The incentives are classified into four categories i.e. (1) Supply side financial incentives; (2) Supply side non-financial incentives; (3) Demand side financial incentives; and (4) Demand side non-financial incentives. Most of the incentives are areas where State action is required though a few are in the Government of India domain.

6 RECOMMENDATIONS :SUPPLY SIDE FINANCIAL INCENTIVES FOR THE AFFORDABLE HOUSING SECTOR

As mentioned above supply side financial incentives are targeted towards reducing the cost of the dwelling units through monetary interventions or concessions to housing providers so that they are incentivised to target and increase the supply of dwelling units in the Affordable Housing segment, thereby also further bringing down the costs of such dwelling units. A key area of concessions to Affordable Housing could be through a set of concessions related to taxes and fees. According to a recent McKinsey Global Institute study, taxes and fees account for approximately 27%[11] of the final cost of EWS and LIG houses. Reducing this burden will enable developers to provide cheaper houses for the EWS and LIG. In a scenario where there are very limited numbers of dwelling units being built in the affordable segment, these concessions would have a minimal impact on government revenue collections. Supply side financial incentives also include direct monetary incentives such as capital grants and or viability gap funding to Affordable Housing providers and targeting priority sector lending to the developers working in this segment. Many of the recommended incentives would need to work simultaneously to have a significant impact on the growth in the number of affordable housing units being constructed.

[11]The example provided in Exhibit 3.4.9 of the report estimates 2.4% for stamp duty, 12% for development and approval charges, 2.9% VAT, 3% excise duty on materials, 0.9% service tax and 5.4% income tax (the first three levied by the state government and the last three by the central government).

6.1 Development Related Charges

In the Rajasthan Affordable Housing Policy, several incentives are offered to developers like waiver of External Development Charges (EDC), Building Plan approval fees, Land conversion charges, etc. Given that there are very few Affordable Housing projects being developed currently, these concessions are not expected to have a large impact in government revenues but can go a long way in encouraging the growth in this sector, especially in certain states where the EDCs are quite high.While these concessions should be prorated to the amount of floor area of Affordable Housing Dwelling Units to make it targeted, alternate mechanisms will have to be developed by states governments, depending on the quantum of the revenue gap created on granting these concessions to fund external development without loading its costs on Affordable Housing projects. The Task Force strongly recommends States to consider similar concessions in development related charges as best suited to their condition to encourage Affordable Housing projects.

6.2 Service Tax exemptions

The Department of Revenue, Ministry of Finance, GoI vide Notification No. 25/2012 dated 20th June 2012, Service Tax has exempted the taxable services by way of construction pertaining to low cost houses up to a carpet area of 60 square metres. This concession would be available to all projects which have been approved under the 'Scheme of Affordable Housing in Partnership' framed by MoHUPA. This concession could be up to a level of 4 to 5 percentage of the project cost and therefore could serve as a major incentive for affordable housing developments. A separate section later in this Task Force report deals with recommendations for revamping the AHP scheme so that this concession is able to yield the intended results.

6.3 Direct Tax rebates for Affordable Housing projects

6.3.1 Considering the importance of housing, the Central Board of Direct Taxes (CBDT) vide its Notification No. 1/2012 [F. No. 142/24/2011-SO (TPL)], dated 2-1-2012 has amended Income tax rules under Section 35 AD to include Affordable Housing projects w.e.f 1st April, 2011. This allows for investment linked deductions to businesses, which develop Affordable Housing under a notified scheme. The section 35AD (5) (ac) of the Income Tax Act, provides that where the specified business is in the nature of developing and building or housing project under a scheme for slum redevelopment or rehabilitation framed by the central government or a state government, and which is notified by the Board (CBDT) in accordance with guidelines which state that the project shall have prior sanction of the competent authority empowered under the Scheme of Affordable Housing in Partnership framed by the Ministry of Housing and Urban Poverty Alleviation, Government of India;, will be entitled to receive a 100% tax deduction on capital expenditures.

In housing projects, whether slum redevelopments or affordable housing schemes, the expenses specifically related to the projects, whether revenue or capital, are debited to the concerned projects and are deductible from profits of such projects. However, this concession is targeted at equipment used for construction of the project. Other than purchases of large machineries and equipment used in construction projects, there is hardly any capital expenditure in the context of construction of housing which would be allowable as deduction. The only way this concession could have a greater significance is in projects that use mass construction technologies, such as in situ industrialised monolithic construction methods, which have high initial investment on equipment. While such construction methods has advantages in reducing the time required in construction, in today's environment the use of such technologies, which need investments in terms of equipment and machinery, lead to an increase in the cost of the housing. Therefore, the immediate impact of the tax deductions will be minimal and as per some calculations undertaken by the Task Force would be around 1% of project cost. A following section also recommends means to incentivise industrialised monolithic construction methods, so that over a period of time they could lead to reduced costs of construction.

However, the income tax deductions could potentially have a significant impact on rental housing development. In rental housing projects, the units are not sold, but are rented out. The capital investments in land, infrastructure and building remain in the books of the project company as capital expenditure. If the deduction under 35AD (5) (ac) are available for the entire capital expenditure in rental housing projects, the resultant tax benefits would be significant for these projects and will make rental housing a commercially feasible proposition. Therefore, **the Task Force recommends that MoHUPA pursue this aspect with CBDT to include the entire capital investment in a rental housing as eligible deduction under 35AD (5) (ac).**

6.3.2 The 35 AD section also stipulates that to claim benefits under it, the project, would need to be approved under the Affordable Housing in Partnership Scheme, and should have a minimum area of one acre with at least 30% of total allocable area for EWS, 60% for EWS & LIG, 90% for EWS, LIG & MIG and remaining 10% for other residential or commercial units. The Task Force feels that while the allowance for cross subsidy is well taken, a prescriptive approach on percentage distribution of area for the various segments could be too restrictive especially because the concession is minimal. **The Task Force therefore recommends that the 35 AD concession should be available to all projects approved under the Affordable Housing in Partnership Scheme.**

6.3.3 Section 80-IA of the Income Tax Act provides that where the gross total Income of an assessee includes any profits and gains derived by an undertaking or an enterprise from any of the business referred to in sub-section (4) then a deduction equal to 100% of the profits and gains derived from such business shall be allowed for ten consecutive assessment years. Sub-section (4) covers the business of either (i) developing or (ii) maintaining and operating or (iii) developing, maintaining and operating any infrastructure facility which fulfills all the conditions as laid down in the said section. The purpose for introducing the tax benefits was for the reason that industrial modernisation requires a massive expansion and qualitative improvement in infrastructure and to encourage private sector participation and investment. The definition of "infrastructure facility" does not however include Housing. Housing Development companies are engaged in undertaking large scale urban development projects including purchasing raw land and developing it for the purpose of construction of houses, multi-storied buildings, creation of infrastructure and social facilities such as laying of roads, systems for water supply, water treatment, sanitation and sewerage, solid waste treatment and also to create educational, medical and recreational facilities as an integral part of development of satellite townships. As such, housing projects complements the growing requirement of housing resulting from the large scale ongoing infrastructure development as also tend to reduce the pressure on existing cities by providing low priced alternatives and value for money to the low income housing customers. AHTF therefore recommends that as an attractive incentive to the developers, Affordable Housing projects may also be included in Sub-section (4) to avail the benefit of Section 80-IA. Including Affordable Housing, as per the Task Force definition, as ''infrastructure facility'' will also assist the financiers of such projects to be eligible for a host of tax concessions otherwise currently available to infrastructure projects. This, the task force feels will go a long way in reducing the cost of the Affordable Housing dwelling units and incentivise the development of such projects.

6.3.4 The objective of the introduction of the benefits under section 80 IB(10) was to build housing for low and middle income group; the low and middle income group was however not defined. The tax deduction u/s 80IB(10) available to undertakings developing housing projects is for projects approved on or before 31st day of March, 2008. As the enormous shortage of low cost housing continues, AHTF recommends that provisions of section 80 IB (10) be made applicable for Affordable Housing projects sanctioned after 31st March 2008, at least for ten years till 2018 who fulfil the conditions prescribed by the MoHUPA in this regard and this benefit should be limited to dwelling units that are less than 60 sq.m carpet area in size. Mechanisms to stop the misuse of this section, which led to its withdrawal could be developed by MoHUPA in consultation with State Governments. This could act as a significant incentive for the mass scale development of Affordable Housing projects.

6.5 Direct Capital grant support to Infrastructure projects

6.5.1 The analysis shown in Box-V, clearly shows that a buyer belonging to the EWS category essentially needs a capital subsidy to make a house affordable. Capital grants for housing and basic infrastructure for affordable housing projects, is provided through the Affordable Housing in Partnership Scheme of the Ministry of Housing and Urban Poverty Alleviation. The scheme has not been effective as yet and has funded only a limited number of projects. A detailed analysis and a set of recommendations to revamp the AHP scheme is presented later in this report.

6.5.2 Viability gap funding (VGF) : VGF, has been successfully used to provide financial support in the form of grants, one time or deferred, to infrastructure projects undertaken through public private partnerships with a view to make them viable. GoI has established a Viability Gap Fund to aid the PPP infrastructure projects which face the viability gap due to inherent nature of the project. The AHTF recommends that the Government of India should consider making Viability Gap Funding available through the established Government of India facility for Affordable Housing projects too. Also a VGF funding mechanism under the RAY, could be made available for PPP projects based on appraisal of the finances and economics of each project. The AHP revision discussed later in this report also presents a considered approach for the use of a VGF mechanism.

7 RECOMMENDATIONS: SUPPLY SIDE NON FINANCIAL INCENTIVES FOR THE AFFORDABLE HOUSING SECTOR

There are a number of incentives which do not need direct monetary allocations from governments but could help promote the Affordable Housing sector. Accelerated growth in the sector can be most effectively created by lowering barriers for people to produce (supply) goods and services, such as by allowing greater flexibility and reducing regulation. In this manner supply-side non-financial support from governments will benefit consumers by increasing the supply of goods and services at lower prices, due to increased supply. Typical policy recommendations of supply-side are to remove barriers to promote new market players and increase the availability of the required inputs such as land and labour and simplifying regulation. The section below lists some of the most important supply side non financial interventions that could be taken by state governments to give a boost to the Affordable Housing sector.

7.1 Reduce timelines for approval of Affordable Housing projects

7.1.1 Before construction can begin on an Affordable Housing project, a developer must obtain a series of permits and approvals from institutions at the local, state, and central level. There is considerable variation from city to city on the actual time taken to obtain all permits and approvals in practice before beginning construction. However, all estimates agree that the amount of time taken in obtaining clearances is significant i.e. 1 to 3 years which adds to the cost of the project.

The AHTF strongly recommends that States should take up measures to establish a Single Window, fast track approval process.

7.1.2 Fast track approval systems for the various components of project approval already exist in various cities and states, even if not fully consolidated into a comprehensive system for affordable housing project approvals. The Affordable Housing policy ofRajasthan has a commitment for a 30-day approval process. This includes facilitation of land related clearances as well as building permits among other approvals.

7.1.3 Each state government should aim to offer similar fast track automated building plan approval system/ Green Channel that is most appropriate in its context to overcome systemic hurdles in that state; the objective being to ensure that delayed approvals don't affect the viability or affordability of housing projects for low income home buyers.

7.1.4 Based on the above successful practices, the following is recommended:

- A simplified set of regulations and procedures for issue of building permits, accompanied by clear instructions/ checklists/ guidelines/ manuals on how to submit an application. This may include, where feasible, empowering empanelled architects (a practice already being followed in a few cities). This should be further supported by IT-enabled packages for work flow automation and web-enabled interfaces.
- Creation of an institutional mechanism to facilitate faster conversion of agricultural land to non-agricultural land within the boundary of the urban planning area where the land is earmarked for residential use in the master plan.
- State should ensure streamlining of all state and local clearances to facilitate approval within a maximum of 60 days. States should constitute institutional mechanism to facilitate the first track approval process.
- Streamlining and fast-tracking of central government clearances from Ministry of Environment & Forest, Archaeological Survey of India (ASI), Airport Authority of India (AAI) and Ministry of Defence needs to be pursued by the central government as per recommendations being worked out by the Committee on Streamlining approval process.

7.2 Inventory of state/ city land holdings and increasing land supply for Affordable Housing

7.2.1 One of the central issues preventing the creation of affordable housing in the most populated cities especially Tier 1 cities is that land is too expensive. In most cities, the cost of land typically constitutes about 20-30% of the final cost of an affordable housing project. In exceptional cases such as Mumbai, this percentage can be as high as 90%, pushing most green field Affordable Housing projects to the periphery of the city. However, Government agencies often own significant amounts of land near the city centers. This land is often well connected to infrastructure but under used. The Task Force therefore recommends that:

- State and cities shall make a full inventory of their land holdings in cities

- Constitute a land bank and prepare an asset management plan for better managing the available land and targeting it supply to create Affordable Housing Dwelling Units

7.2.2 The State action as mentioned above would allow state/local governments to strategically release urban land for housing the urban poor through specially designed mechanisms, while involving State Housing Boards, the Private sector through specifically crafted PPP mechanisms, the cooperative sector as well as the not for profit sector as required. Three models, which have innovated in this regard and are being implemented by various States are presented below:

- To utilize existing land bank for housing by Govt. in partnership with private developers e.g Model no-4 of Affordable Housing Policy of Govt. of Rajasthan (Box-V)

Box V: Model-4, Rajasthan
Private developers on Government land
(For Rental housing or outright sale basis)

- Earmarked Government land to be offered free of cost to the developer to be selected through an open bidding process.
- Developers offering maximum number of EWS/LIG DUs (Built up, G + 2/ G + 3 formats) free of cost to the ULB, would be awarded the project. At least 50% houses should be of EWS category.
- Developers shall be free to use the remaining land as per his choice for residential purpose with 10% for commercial use.

- To create land bank for housing by owners of private land: Vijaywada Model in Andhra Pradesh for housing on sharing basis under PPP, the illustration of which may be seen in Box VI.

Box VI: Vijayawada land sharing Model under PPP

Vijayawada (60:40) model is an example of land assembly by a negotiated settlement process and consent awarded by the District Collector under sections 31(3) and 31(4) of Land Acquisition Act or eas it another section
The salient features of this model:

- 40% of the total land area can be taken possession of by the Revenue Department
- 60% portion of land shall be given to all land holders after the land use conversion, approval of layout by the UDA and Government and development of infrastructure with funds from Social Welfare Department.
- A scheme on the basis of the above formulae was prepared for acquisition of 226.54 acre of land under 60:40 sharing pattern and submitted to the government by the Collector Krishna District under section 31(3) of LAA.
- After success of the Phase 1 of this project, local farmers, themselves, came forward and expressed their willingness to pool 798.27 acre land under 60:40 sharing basis. A similar process was also followed in Phase II.

Benefits of this Model :

- Financially this model is beneficial.
- The method is participatory as the conditions of land sharing are fixed through negotiations between the farmers (land owners) and the representatives of the government.
- The process of land assembly is less time consuming as there are generally no objections from farmers, as indicated by the second phase of land assembly at Vijayawada, and hence no resistance, litigations or legal stay orders causing delays.

Source: Innovative Land Sharing Model (60:40 basis) under Public Private Partnership a case study of Vijayawada City, Ministry of Housing and Urban Poverty Alleviation (MoHUPA), November, 2011, Unpublished

- Magarpatta Model in Maharashtra is another successful model which aims at innovatively using land owned by farmers themselves. See Box VII for details.

Box VII :Magarpatta Model- Farmers as Developers

In this model the land of over 400 acres in Magarpatta City, (7 kms away from Pune railway station) owned by over 120 families consisting of around 800 beneficiaries was pooled in for development of an innovative and integrated township. The idea was to create a self-contained township based on 'walk to work, walk to school' principle.
The salient features of this model are:

- Landowners are percentage shareholders in the company formed by them and entitled to a share in the profits
- Landowners are also entitled to receive a percentage of sale-proceeds in proportion to their land-holdings as and when sales accrue, thereby getting benefit of escalating prices.
- Landowner is not displaced from their ancestral land, instead land is used for empowering the land owner
- Landowners have the opportunity to turn into entrepreneurs thereby creating an employment for themselves and to others.

- The Greater Hyderabad Municipal Corporation (GHMC) has applied Tax increment financing (TIF) to take up capital improvements in peripheral localities lacking roads, underground drains and water supply, parks and street lights.
- TIF is an unexplored financing source in which money is borrowed now to pay for immediate infrastructure requirements and paid over a time period as the facility is used.
- The TIF uses incremental increase in tax revenue caused by development to finance infrastructure improvements. The rationale is that as property values in TIF areas rise and property tax revenues increase, the urban local bodies (ULB) use the growth in property tax revenues to pay off the initial and ongoing economic development expenditures.
- The strategy was to fund capital improvements by accessing bank loans to be repaid by the households, as an annual tax increment, getting immediate benefits due to the implementation of the TIF programme in select neighbourhoods.
- A total approach was followed to develop complete hard infrastructure in all peripheral neighbourhoods by providing water supply, underground drainage, roads, storm water drains and street lights.
- Moreover, neighbourhood residents had to contribute 30% of the local water project cost if internal distribution lines had to be laid. Nearly 800 neighbourhoods were identified based on the existing infrastructure gaps in the peripheral neighbourhoods.
- First, the hard infrastructure requirements were evaluated through a rational-technical survey by engineers. Second, the survey findings were confirmed by the area sabhas, ward committees and the local elected representatives and a 'people's plan' prepared.
- Finally, operational plans were divided into stages, and during the first phase, the following type of neighbourhoods were selected: those already having water supply and drainage network but no roads; those not having water supply or drains, and those requiring only recreational facilities, such as parks and playfields.

Source: Economic Times, published on 12th April, 2012, Author: Sameer Sharma, Former, Municipal Commissioner, GHMC.

Box IX

Gujarat Model

1. Broadly there are four initiatives in Gujarat to deal with affordable housing. The first is under the Regulations for Rehabilitation and Redevelopment of the Slums, 2010. It is aimed at rehabilitation of slums. Similar to the SRA model of Mumbai, the public sector does not build or finance anything, its only involvement is through regulations and incentives such as additional FSI. The developer develops projects on a slum which includes providing housing at no cost to the existing slum dwellers. For the scheme to be approved for construction a society of individual slum dwellers must be formed and 75% of these individuals must agree to the scheme. This scheme is only viable where the land value is very high. The scheme applies to existing slums.

2.The second scheme is under the Regulations for Residential Townships Act, 2009. It relates to private developers who want to develop residential townships. Private developers must purchase at least 40 hectares of land (in cases where Urban Development Authorities exist) or 20 hectares of land (in other relevant authority areas).10% of the area must be reserved for housing for the Economically Weaker Section.

7.3 Increasing Land availability for Affordable Housing Projects

Availability of developed land, which is land with infrastructure, at a low cost is an important requirement for the promotion of Affordable Housing. As part of the RAY reforms the MoHUPA has circulated a draft of the "Model Provision for Amendment to the Respective Municipal Act(s)/Town Planning Act/Urban Development Act/ Preparation of new legislation, etc. as applicable, for reservation of Land for Housing to Economically Weaker Sections (EWS) and Low Income Groups (LIG)" aimed at the reservation of 20-25 % of developed land for housing the urban poor. The Task Force has noticed that there is considerable resistance to the implementation of this reform as even with the support of a set of incentives this reservation would is too high and beyond the cross subsidy capacity of both the developers/projects as well as the buyers.

Other than this cross subsidy constraint, the Task Force also looked into the basis of the high reservation level of 20-25 percent of developed land as set out in the reform provision. It was found that the reservation level also quoted in the National Housing and Habitat Policy 2007, has emerged due to the felt need for provision of land and housing to the urban poor living in slums. While the first full survey of slum dwellers is currently being undertaken, as an guesstimate based on the average percentage of the slum population in various larger cities it is believed that the slum population is between 20-25 percent of the urban population[12], hence this level of reservation would be necessary to provide land and housing to the slum dwellers.

The Task Force making use of recent data and plans generated by cities evaluated three draft Slum Free City Plans (SFCPoAs) to estimate the percentage of slum areas to the net residential area of the city and the percentage of the built up area of the

[12]The 2001 Census puts the slum population at 42.6 million which forms 15 per cent of the country's total urban population and 23.1 per cent of population of cities and towns reporting slums. In 2001 the Census of India, collected the slum population data from cities and towns having population of 50,000 and more in 1991. There were a total of 743 cities and towns in that category, of which 640 reported slums.

slums in the city to the total built-up area of the residential area in the city, to separately estimate the level of reservation required to generate the land to house slum dwellers. In the three cases studied the percentage of slums to the net residential area of the city emerged to be between the range of 9-16 percentage; and the percentage of built up area of the slums to the built up area of the entire city worked out to be between 8.4-14.6 percentage. Based on these analysis, with a view to also cover the backlog of housing the Task Force would like to recommend that the reservation requirement under the RAY programme be reduced to at least 15% and upto 20%, of developed land and at least 35% of the dwelling units in each project with a plot size of 1 hectare. The 35% of the DUs, reserved at the project level, should be for EWS and LIG Category with at least 25% of these DUs of the EWS category. Also simultaneously with this reservation the State governments should also provide compensatory FSI as explained in a separate section. The Task Force feels that this will be better received by the industry and will also increase the number of dwelling units for the target categories. Also this is a higher requirement than the 25% as in the AHP Scheme, currently.

In projects that are developed in cities where there is a significant demand for EWS, LIG-A and LIG-B, houses an infrastructure grant aimed at incentivizing the development of land provision of EWS, LIG-A and LIG-B, units by the housing developers should also be considered. The Task Force recommends that the AHP should also create a separate window for a capital grant for infrastructure cost component for Land development projects, in layouts which have reserved land for Affordable Housing projects.

7.4 Increasing FSI and providing TDR facilities

To ensure adequate provision of Affordable Housing, increasing FSI/FAR and providing Transferable Development Rights (TDR) has emerged as a strategy which is gaining momentum in the country particularly in cities where land is scarce and expensive. The Task Force recommends that this approach is used in two situations, as follows. FirstlyFAR/FSI should be increased in all Affordable Housing projects where the FSI/FAR is lower than 1.75 to allow for increased cross subsidy possibility to give a boost to the viability of the projects.

Secondly in situations where under the Land reservation reform condition under the RAY Scheme where a portion of the land/FAR is handed over to government additional /compensatory FSI (double of the normal FSI, in the case of Rajasthan or compensatory FSI as in Assam, i.e. equal to the FSI consumed for EWS/LIG segment) can be offered to the developer. This additional FSI, if unutilized on the same project land, could be given in the form of TDR, through a zonal planning system, to be used in other parts of the town as per norms and guidelines fixed by the State government in this regard.In both the situations states and ULBs may be required to also increase the applicable density levels. Box X and Box XI cite examples of the successful implementation examples of increasing FSI for Affordable Housing.

Box XI: Maharashtra – Reservation and Use of FSI for Slum development

THE MAHARASHTRA REGIONAL AND TOWN PLANNING ACT, 1966 (As Modified up to the 31st December 2005): While this Act does not explicitly mention the urban poor / slum dwellers, it deals with a number of planning issues related to the allocation and use of land for development that could affect them. Some key provisions under the Act are as follows:

Section 125 of this Act states that: "Any land required, reserved or designated in a Regional Plan, a Development or any other plan or town planning scheme, for a public purpose or purposes including plans for any area of comprehensive development or for any new town shall be deemed to be land needed for a public purpose within the meaning of the Land Acquisition Act 1894."

Under section 37 (1) of the said act the government issued directions to all municipal corporation /councils to initiate modification in their sanctioned DCRs (development control regulations) to compulsorily reserve 10% land and /or tenements for EWS & LIG housing.

SLUM REHABILITATION AUTHORITY (SRA): Maharashtra has constituted the Slum Rehabilitation Authority (SRA) under the Maharashtra Slum Areas Act, 1971 for the purpose of slum rehabilitation. The SRA implements schemes that focus on redevelopment as well as rehabilitation of slum-dwellers. The salient features of the Slum Rehabilitation Scheme (SRS) are:

(i) Tenement density is 500 tenements per net hectare;
(ii) FSI in the form of prescribed rehabilitation to sale ratio for cities is provided as 1.0. For in-situ development, consumption of FSI is restricted up to 2.5;
(iii) Transfer Development Rights (TDR) is available against the free-sale component which is approved by the SRA.

7.5 Revision of the Building Codes

Feedback from developers as well as local bodies and state parastatals working in Affordable Housing indicates that many standards and norms, including space standards as well as building performance standards for housing play a significant role in increasing the cost of housing. Each state and urban local body has a different set of standards and norms, which often are not tuned to the requirements of Affordable Housing.

7.5.1 Revision in Planning and Development Norms

As illustrated in Annexure-IX, as per the studies undertaken as part of this report adoption of inclusive zoning practices as well as optimization of various development norms may be considered by state governments for Affordable Housing. A few of the most important initiatives state governments could take are:

- Develop zones for EWS/LIG/MIG in the Master plan
  - States may have liberal development norms for Affordable Housing as follows:-
    - FAR : 1.75 (Minimum)
    - Ground Coverage: 50% (Maximum)
    - Density: 350 DUs/Hectare (Minimum)
  - Parking norms need to be reduced/rationalized for affordable housing projects

7.5.2 The "Part III, Annexure C of the National Building Code of India" lays out the norms for low cost housing. This code focuses a great deal on cluster development and the coverage of group housing needs updating. The Task Force recommends that the MOHUPA should carry out a separate study on building standards and norms to revise the provisions of "Part III, Annexure C of the National Building Code of India" with respect to Affordable Housing, especially for group housing society projects which are not included in the code at present. Also, through such an effort the Government of India should also put in efforts towards standardisation of norms and building codes across different regions of the country which could help in development and use of mass housing construction technologies. These technologies if used at scale could reduce the time required in construction and would finally reduce the costs of dwelling units. Some examples of technological innovations and standardization at structural level could be a) Structural Uniform Criteria for symmetrical structures b) Load Bearing Monolithic structures c) Low Rise buildings with monolithic structures; d) Mat Foundations and e) Soil Improvement technologies.

7.6 Policy support for the promotion of mass housing construction technologies

Mass industrial production methods like prefabrication technology or any innovative appropriate technology which could enhance speed and qualityof construction could go a long way to reduce costs of construction. The advantages of adopting a proactively supportive policy position to promote mass housing construction technologies are many, and the Task Force would like to recommend that the MoHUPA develops a policy paper to develop a strategy for this purpose. A presentation made to AHTF committee in this regard may be seen in Annexure-XI.

8 RECOMMENDATIONS FOR DEMAND SIDE FINANCIAL INCENTIVES FOR THE AFFORDABLE HOUSING SECTOR

A host of demand side financial measures could also boost the Affordable Housing Sector and the AHTF recommends that simultaneous action in this regard could go a long way to strengthen the sector. Demand side financial incentives are prevalent in the middle and higher income segments with income tax rebates being made available by the Government of India to the home buyers. In the Affordable Housing segment the Interest Subsidy for the Urban Poor(ISHUP) is a direct interest rate subsidy to low income households. Other than this the case for direct subsidy vouchers to beneficiaries is also presented in the section below.

8.1 Interest Subsidy

8.1.1 Government of India has launched the Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) as a key policy instrument for channelizing the flow of credit to address the housing needs of the EWS/LIG segments in urban areas. This scheme was a pioneering attempt towards enabling the weaker sections in the urban areas to gain access to formal sector credit, at affordable cost through the use of the banking industry in the country. The scheme was launched in 2008 and provided for a 5 per cent interest subsidy to LIG and EWS loan borrowers. The Task Force recommends that the ISHUP scheme should be restructured to adopt the EWS/LIG definitions as mentioned in earlier in this report and the restrictive size of the loan against which the 5% interest subsidy is received should be increased to at least Rs 5 lakhs instead of 1 lakh.

8.1.2 A moratorium for 3 years in payment of EMI may be also be considered to relieve the EWS/LIG housing buyers from the burden of paying EMI and house rent simultaneously while the house is under construction. Lending banks may be asked to explore the possibility of deferred payment of EMI and a scheme to this effect either as a component of ISHUP or in any other arrangement should be created.

8.2 Appropriate reduction of stamp duty for registration of property in Affordable Housing projects

Most states have stamp duties for registration of property which vary from 5% to 15% of the purchase price of the property. The checklist for mandatory reforms under the JNNURM program also include a "Resolution by Government expressing commitment to reduce Stamp Duty to 5% (or less than 5% if the state so desires) within Mission period". There is a strong case for reducing this further specifically for Affordable Housing dwelling units.

Stamp duty in other countries typically begins at 0% for low-value properties and gradually reaches 3% for high-value properties. After considering all the practices being followed the AHTF recommends that States should adopt a policy of having no or zero Stamp duty for EWS and LIG category and 5% for higher categories. The principle effect of this lower stamp duty will be to reduce the cost of the property and therefore, reduction in the final cost to the beneficiary and the increase in provision of Affordable Housing units.

8.3 Priority Sector Lending for Affordable Housing Projects:

This section will be placed for Review and comments in the Task Force Committee meeting on 6th September, 2012.

9 RECOMMENDATIONS FOR DEMAND SIDE NON FINANCIAL INCENTIVES FOR THE AFFORDABLE HOUSING SECTOR

A host of non-financial demand side measures could also boost the Affordable Housing Sector and the AHTF recommends that simultaneous action in this regard could go a long way to strengthen the sector. State governments could look at ways to integrate, adopt, support and scale up some of the innovations that market and non-governmental organisations are developing. A few such initiatives are shown in Box XV.

9.1 Key non-financial problems faced by low income group in accessing Affordable Housing

Feedback from government agencies, developers and other agencies involved indicate that economically weaker and low income families who are interested in home ownership face the following problems:

- Entry barriers for securing home loans (lack of identity proof, address proof, income proof, etc.), due to them being employed in the informal sector and living in informal settlements.
- Entry barriers in terms of the disinclination of financing agencies/ banks to provide home loans to EWS/ LIG families, due to the higher perceived risk of lending to a segment that has fluctuations in their income and the higher costs of servicing the smaller loans affordable by this segment.
- Lack of financial literacy, particularly in the matter of taking and repaying loans from formal establishments such as housing finance companies, due to the limited education and lack of exposure to formal institutions.

- Vulnerability to fluctuations in income often resulting in the inability to hold on the home, due to the informal nature of their employment.

9.2 Case Studies of low income developers and housing finance agencies.

A few case studies from Pune and Ahmedabad, presented before AHTF committee reveals that there has been initiatives by Private developers and Micro finance companies, working in tandem to serve the low cost housing segments as may be seen in Box-XII, XIII and XIV. The customers predominantly from the informal sector who lack documentation to prove incomes and therefore are not provided with housing finance by the mainstream banks or financial institutions are served by these Developers and Micro finance companies. The Micro-finance companies have developed innovative methodologies of 'Know your client' to assess income of the buyers. The success of these projects mostly lies in the fact that the developers and micro-finance companies complement each other by taking care of the interest of the customers in this segment and utilize the market which is totally demand-driven. Detailed presentations may be seen in Annexures- X.

Box XII : Examples of Initiatives of private developers for low cost housing in Pune

Vastushodh, a developer in affordable housing sectorhas so-far developed 3 million square feet under its two umbrella brands of 'Anandgram' and 'UrbanGram'. The lower income housing developed and marketed as 'Anandgram' are priced in the range of INR 4-15 lakhs and in the range of INR 15-30 lakhs for middle-income group of families.

The location of the projects with land size of 10 acres is 30-40 kms from city-centre with good connectivity. Vastushodh plans to further develop 10 million square feet and to bring Anandgram development on all six approach roads to Pune.

The customers are mix of formal & informal sector like Junior level IT resources, workers from manufacturing sector, self employed in small business. The product are mix of 1 RK, 1 BHK and 2 BHK. Size of units are: 300 sqft for 1 RK, 400-420 for 1 BHK and 550-600 for 2 BHK.For housing finance, the company has tie-up with lenders like MHFC, Gruh, DHFL & HDFC (Rural)

Source: Workshop on Affordable Housing, IHC, July, 2012

Box XIII : Examples of Initiatives of private developers for low cost housing in Ahmadabad

Foliage is a known player in Ahmedabad real-estate market. It evolved a distinct legal, operational and organizational structure in 2008 to address the LIH opportunity in a sustainable and profitable manner.Atmiya Builders was setup as a separate strategic business unit in 2008 after Foliage's recognition of lower income housing as a long-term strategic opportunity. LIH development is marketed under the 'Navjivan' brand. Thedwelling units are available in the range of INR 5-10 lakhs.
The location of the projects is 15-20 kms for city-centre with good connectivity and in proximity to the large industrial areas.

The customers are mix of formal & informal sector like workers from manufacturing sector, self-employed in small business.

The product are mix of Mix of 1 RK ,1 BHK and 2 BHK; typically 1RK & 1BHK together account for90% or more of total units. Sizes of the units are 300-350 sq.ft. for 1 RK; 450-600 sq.ft. for 1 BHK; 630-720 sq.ft. for 2 BHK.For housing finance, the company has tie-up with lenders like MHFC, DHFL &Muthoot.

Source: Workshop on Affordable Housing, IHC, July, 2012

Box XIV : Examples of Initiatives of Micro-finance companies to serve low cost housing sector

Micro Housing Finance Corporation Ltd started operations in 2009 and registered with NHB on 9th Feb 2009. It started lending to informal sector from 15th June 2009. It uses mobile and electronic technologies for interfacing with users including the collection of EMI, managing and maintaining books of accounts etc.

Key Milestones

Touched 10 crores of lending on 16th March 2011 and achieved breakeven in 2012

Refinancing available from NHB/ ISHUP subsidy not offered

NHB interest subvention scheme offered – 1416 loans sanctioned with subsidy

Typical overall loan size of 4.2 lakhs

Total number of loans	1,416
Average loan size	4.2 lakhs
Default rates	0%
Average loan tenure	12 yrs
Interest rates- Formal	12%-14%
Interest rates- Informal	12%-14%
Geography of operation	Gujarat, Maharashtra, Madhya P Pradesh, West Bengal, Chattisgarh
Percentage of Informal customers	100%
Percentage of loans below 10 lakhs	100%
Current size of loan book	40 Crs.

Source: Workshop on Affordable Housing, IHC, July, 2012

9.3 Key Recommendations for demand side interventions by State governments

Considering this feedback, it is recommended that each state government and urban local body initiate programs to create/ support entities that accelerate the home ownership process in low income groups through the following generic types of interventions.

- As a facilitator to enable the EWS/ LIG families to access institutional credit including subsidies under existing schemes.
- Outreach to low income families on the importance of home ownership for financial security.
- Educational programs for financial literacy with respect to home loans.
- Active handholding in the process of securing home loans and purchasing houses.

Box XV: Examples of Initiatives to promote EWS/LIG home ownership

Case No-1: Micro Housing Finance Corporation Ltd

- In the last few years, several new Housing Finance Companies have come up, who focus specifically on informal sector home buyers. Micro Housing Finance Corporation Ltd (MHFC) is one such company. Other such companies include Muthoot Housing Finance Ltd, Home First Housing Finance Ltd and Shubham Housing Finance Ltd.
- MHFC has developed a methodology of dealing with informal sector home buyers, which incorporates the following elements of demand side support:
  - Methods of estimating credit worthiness that are appropriate for informal income sources and earning patterns
  - Customer education specific to home loans, such as banking processes (eg: ECS), identity documentation and repayment norms.
  - Counselling on choice of home to buy (issues such as affordability versus aspiration)

Case No-2: GrihaPravesh

- Many non-profit organizations working with the urban poor are now exploring the possibility of helping low income households in moving towards ownership of legal, mortgagable homes in the formal real estate market. Saath, an NGO based in Ahmedabad is one such organization and GrihaPravesh is a housing facilitation centre that they have set up in collaboration with an affordable housing developer (DBS Affordable Home Strategy Ltd) and with support from the Michael and Susan Dell Foundation. A similar initiative is also being carried out by Mahila SEWA Housing Trust (MHT), another Ahmedabad based organization.
- GrihaPravesh is designed as a membership based community service organization, which provides the following services to its members:
  - Facilitate the selection of appropriate housing
  - Facilitate access to housing finance
  - Facilitate access to community development initiatives such as:
    - skill upgradation and improved livelihood opportunities
    - cultivating banking habits and insurance
    - access to health and education
- GrihaPravesh, started in mid-2011, had enrolled over a 100 members and organized several awareness programs by the end of the year. They have also secured cooperation from other developers and Housing Finance Companies.

- Educational intervention in completed projects regarding building maintenance and community management.
- Interventions in skill development livelihood, health and education in completed projects to ensure the upward mobility of these low income home owners.
- Support new 'Know your client' procedures being adopted by new Housing finance providers.
- As mentioned the RAY guidelines the Task Force recommends the operationalization of the Rajiv Awas Shelter Fund, to be used for funding a instrument to keep the slum/urban poor beneficiary from turning defaulter due to unemployment, death or other genuine distress and thereby risk forfeiture of dwelling unit and foreclosure on loan; the State Governments should develop an instrument could also have a specific window to share the lender's costs of servicing a loan.
- Other than this the State may also consider creating, or enabling, in each slum or city, an Intermediating Agency between the lender and the borrower, which may be a Rajiv Awas Yojana Residents Housing Association of the slum dwellers, or such a housing association in collaboration with a microfinance agency or a joint venture between a municipal or State Housing Board, which will take care of tracking each borrower, and ensuring repayment. In the event of intentional failure to pay the loan, this intermediating agency should also provide help to the lender to foreclose on the mortgage.
- It may be possible and desirable to integrate many of the above interventions with already existing poverty alleviation programs (e.g. SJSRY) of the state government and urban local body.

10 SUGGESTIONS TO RECAST THE AHP SCHEME AND INTRODUCE VIABILITY GAP FUNDING

10.1 Introduction

1. In response to the specific mention in the ToR for “Suggestions for various models for incentivizing the private sector to the States especially with regard to reservation of land for EWS/LIG and their involvement under Rajiv Awas Yojona,” the Task Force also studied the AHP Scheme which has been dove-tailed with Rajiv Awas Yojana, as an instrument for attracting private sector into the low income housing market segment.

2. The Affordable Housing in Partnership (AHP) Scheme, was initially launched in 2009. It is aimed at operationalizing the strategy envisaged in the National Urban Housing & Habitat Policy (NUHHP) 2007, of promoting various types of public-private partnerships – of the government sector with the private sector, the cooperative sector, the financial services sector, the state parastatals, urban local bodies, etc. – for realizing the goal of affordable housing for all. On the launch of the Rajiv Awas Yojana (RAY), in 2011, AHP was dove tailed with RAY, as it was envisaged to be a key instrument of creating affordable housing stock thereby being part of the preventive strategy against formation of future slums.

3. The AHP scheme has a budget allocation of Rs 5000 crs and has a vision of supporting 1 million dwelling units across the country. However since its launch in February 2009, there has been limited response to the scheme. Till date only 8 projects, covering 5776 DUs have been sanctioned under the scheme.

4. One of the reform conditions under RAY is reservation of 20-25% of developed land for EWS/LIG housing in every new public/private residential development. It was expected that land assembly for providing affordable housing units to EWS/LIG segments shall be facilitated through this condition.

5. The Task Force also obtained feedback from developers of affordable housing projects and State Governments regarding the strengths/ weaknesses of the scheme and the implement ability of the reform condition.

10.2 Observations of the Task Force on the AHP Scheme and the reform condition on reservation of land

The observations of the Task Force are summarised below.

6. The Task Force notes that the Affordable Housing in Partnership Scheme of the GoI is a part of the preventive strategy aimed at releasing adequate amount of housing units into the market so that future growth of slums is avoided. The curative strategies of RAY will address the existing slums and therefore the AHP scheme should focus on new development.

7. The basic aim of the amended AHP is to incentivise land assembly and increase the stock of affordable housing and provide the option of rental housing and dormitories for new migrants to reduce the alarming affordable housing deficit. The AHP scheme was designed as a subsidy for developers, both public and private, who provide EWS/LIG units in their housing projects. It was also envisaged that reform condition of reservation of developed land will require cross subsidies to be provided and that the AHP scheme could be used as one of the instruments of subsidy for developers. Thus, it was expected that the twin constraints for affordable housing i.e unavailability of land and unaffordability of the cost of a constructed house for the EWS/ LIG segment, will be addressed.

8. The Task Force notes that there are a few affordable housing projects in the market which meet the guidelines of the Ministry with respect to physical specifications of EWS/LIG units; However, the units in these projects are sold at a price higher than what is affordable for the EWS/LIG segments. They are also not seeking subsidy under AHP. One of the prime reasons is that the effective subsidy is lower, thus making it operationally inefficient for the developers to seek this subsidy.

9. A Monitor Group study for the Task Force has concluded that the EWS segment may be able to afford housing only if it is made available at a cost of Rs 3 lakh per unit, whereas the smallest available housing unit in the market is priced around Rs 6.0 lakhs. The Task Force's own calculations also reveal that even if the proposed size specifications for EWS unit were to be applied, the sale price of an EWS unit would be atleast Rs 5.8 lakhs. Therefore effective subsidisation of the cost of construction to the extent of Rs 2.8 lakhs to Rs 3.0 lakhs per unit needs to be provided by the GoI and the State Governments together, to make housing affordable to the EWS segment. As against this, the AHP scheme allows for only Rs 50,000 as subsidy per unit. Even this amount is not available due to ceilings imposed in the Scheme which is on account of the condition that-. "Central Assistance under the scheme will be limited to least of following:

    a. Rs. 50,000 per rental or Dwelling Unit for all dwelling units taking EWS, LIG and MIG units together which are proposed in the project; and
    b. 25% of the cost of all civic services (external and internal) proposed in the project

10. In all the projects approved/funded so far, the condition of 25% of the cost of all civic services has become the upper ceiling as this has been lower amongst the two options mentioned above. Thus, the average AHP capital support has come to only about Rs 10,000-15,000/ per affordable DU(which includes EWS, LIG and MIG units), which translates to about Rs 19,000 -26,000/ per EWS DU. Therefore the effective subsidy under the AHP scheme is much lower than the intended Rs 50,000.

11. The effective low level of subsidy under AHP has not attracted developers and this weakness has had the following two impacts:

    a. There are several ongoing affordable housing projects which may by and large meet the dwelling unit size specifications for EWS/LIG. However, since the AHP subsidies are low, they are not able to make the housing units affordable to the EWS/LIG segment. The projects are effectively targeting buyers in the slightly higher income categories.

b. Due to the reasons explained above, the existing projects do not qualify as Affordable Housing projects. Therefore even the few buyers from the EWS/LIG segments in these projects do not get the benefit of the AHP scheme. They will also not be eligible for the proposed service tax exemptions. The developers of these projects also do not get the benefits available under Sec 35 AD of the Income Tax Act.

12. The Task Force is of the view that the AHP scheme is not finding adequate traction due to this limitation of low effective subsidy, over and above the constraint of unavailability of land which is discussed below. Therefore, the Task Force recommends that the AHP scheme be revamped to provide a higher effective subsidy per EWS/LIG unit to make it workable. In this context it may be noted that housing has been a policy priority for the GoI and the GoI already provides tax concessions on housing loan interest payments upto Rs 1,50,000 per year and principal repayment is also considered under income tax exemptions. The Task Force notes that for a middle income housing loan of Rs 20 lakhs, the tax benefit in the first year of the loan itself is Rs 30,900, assuming a conservative tax rate of 20.6% (20% tax slab and 3% education cess), 15 year loan term and 9% interest rate. In the later years, the tax benefit reduces as the interest component in the EMI comes down. Over the life of the housing loan, the total tax benefit is Rs 2 lakhs in net present value assuming a discount rate of 9% (equal to the interest rate). The absolute amount of subsidy for a middle income house is thus Rs 2 lakhs, though in percentage terms the subsidy would be 8% assuming a house value of Rs 25 lakhs and loan component of Rs 20 lakhs.

13. The Task Force has also received feedback that since the reform regarding reservation of land is being implemented at a slower pace, assembly of land has not been forthcoming. The Task Force is of the opinion that the AHP scheme should be seen primarily as a subsidy for the cost of housing and infrastructure and should not be viewed as the primary instrument for subsidising the availability of land.

14. Availability of developed land, which is land with infrastructure, at a low cost is an important requirement for the promotion of Affordable Housing. As part of the RAY reforms the MoHUPA has circulated a draft of the “Model Provision for Amendment to the Respective Municipal Act(s)/Town Planning Act/Urban Development Act/ Preparation of new legislation, etc. as applicable, for reservation of Land for Housing to Economically Weaker Sections (EWS) and Low Income Groups (LIG)” aimed at the reservation of 20-25 % of developed land for housing the urban poor. The Task Force has noticed that there is considerable resistance to the implementation of this reform as even with the support of a set of incentives this reservation would is too high and beyond the cross subsidy capacity of both the developers/projects as well as the buyers. This level of reservation results in cross subsidy and imposes additional costs on the MIG/HIG segments which are already overburdened due to the prevailing high prices of housing. Any additional cross subsidisation by these segments is not considered possible and therefore there is reluctance to implement this reform provision. Moreover, if 20% of developed land is reserved for EWS/LIG units, the proportion of EWS/LIG units in the overall project becomes 45.4% (assuming the remaining units are of a super built up area of 1200 sq ft). In case the remaining units are high end residences with an average super built up area of 3000 sq ft, the percentage of EWS/LIG units can be as high as 67.6%. This makes the task of selling the units more oriented towards segments that the developer is not familiar with.

15. The Task Force has also noted that the Government of Andhra Pradesh has stipulated a reservation of 10% of FAR or 25% of units for EWS/LIG. The Government of NCT has stipulated a reservation of 15% of FAR or 35% of units for EWS/LIG, whichever is higher. The Government of Madhya Pradesh has stipulated that the units for economically weaker section and lower income groups should be 15% of units developed for other income groups. Other State Governments have also proposed reservation in private housing projects in the range of 10%-15% of FAR. Details of the provisions stipulated by State Governments are summarised in the Annexure.

16. Other than this cross subsidy constraint, the Task Force also looked into the basis of the high reservation level of 20-25 percent of developed land as set out in the reform provision. It was found that the reservation level also quoted in the National Housing and Habitat Policy 2007, has emerged due to the felt need for provision of land and housing to the urban poor living in slums. While the first full survey of slum dwellers is currently being undertaken, as an guesstimate based on the average percentage of the slum population in various larger cities it is believed that the slum population is between 20-25 percent of the urban population13, hence this level of reservation would be necessary to provide land and housing to the slum dwellers.

17. The Task Force making use of recent data and plans generated by cities evaluated three draft Slum Free City Plans (SFCPoAs) to estimate the percentage of slum areas to the net residential area of the city and the percentage of the built up area of the slums in the city to the total built-up area of the residential area in the city, to separately estimate the level of reservation required to generate the land to house slum dwellers. In the three cases studied the percentage of slums to the net residential area of the city emerged to be between the range of 9-16 percentage; and the percentage of built up area of the slums to the built up area of the entire city worked out to be between 8.4-14.6 percentage.

18. Based on these analysis, the Task Force would like to recommend that the reservation requirement under the RAY programme be revised as “reservation of 15% of FAR or 35% of units, whichever is higher, for EWS/LIG housing in every new public/private residential development.” The Task Force notes that the reservation for EWS category is anticipated to be 25% of units which would consume 10% of FAR.

[13] The 2001 Census puts the slum population at 42.6 million which forms 15 per cent of the country’s total urban population and 23.1 per cent of population of cities and towns reporting slums. In 2001 the Census of India, collected the slum population data from cities and towns having population of 50,000 and more in 1991. There were a total of 743 cities and towns in that category, of which 640 reported slums.

19. The Task Force has received feedback from developers that they may be permitted to meet the reservation condition by purchasing affordable housing units from dedicated affordable housing projects in the vicinity and selling them at prices as per the guidelines provided by the respective State Government/ Local Authority. If this is permitted, the policy objective of simultaneously releasing affordable housing units concurrent with higher segment units will be met. This will provide operational benefits to developers of higher income segment projects who will be able to focus on their market segment. It will also help developers of dedicated affordable housing projects by minimising their market risk, since there will be a steady demand from several developers. This would also be operationally simpler as it enables virtual pooling of land. Moreover, it creates a business-business cross subsidy model for affordable housing that can be pursued as a new strategy. The Task Force recommends that the reform condition on reservation could be also met through such virtual reservation. The Task Force recommends that the Ministry develop detailed guidelines, keeping in mind the following factors;

    a. The units so purchased meet the EWS/LIG-A/LIG-B eligibility criteria; i.e, size specifications, identification of beneficiaries and upper limit on sale price.

    b. The units shall only be purchased from dedicated affordable housing projects that are a) within a radius of [2-3] kms from the project and/or b) in zones that have the same or higher stamp duty valuations as that of the project location as published by the State Government.

    c. While assessing the dedicated affordable housing project for benefits under AHP, the affordable housing units sold as virtual reservation to other developers will be excluded, to ensure that there is additionality of the AHP outlay.

20. In addition, the Task Force is also of the view that there should be concurrent promotion of other available support from GoI, such as ISHUP, service tax/income tax concessions and State level policies and concessions.

21. The Task Force is of the opinion that in view of the above the AHP scheme should be revamped to target the following :

    a. For subsidising the cost of housing and infrastructure in projects that are **already targeting a base level of units** for EWS/ LIG segments.

    b. As one of the secondary instruments to provide enhanced cross subsidy for projects that are seeking to **provide substantial number of units** for the EWS/LIG segment.

22. The Task Force has reviewed the current pattern of subsidy. AHP in its present form provides for a uniform subsidy of Rs 50,000 per EWS, LIG and MIG unit. This discourages projects whose development mix includes HIG as a means of cross subsiding the lower segments as they receive effectively a lesser subsidy. As a result, this does not incentivise developments which provide / earmark more units/FAR for the EWS, LIG units. If the existing subsidy is restricted to only EWS, LIG-A and LIG-B units as per proposed specifications and if MIG units are excluded, the subsidy per unit can be enhanced without additional financial impact on GoI as shown below:

    - In the present formulation, the condition that a minimum of 25% units should be EWS in FAR terms translates to about 10-15% of FAR. The total subsidy provided @ RS 50,000 per dwelling unit (without the restrictive criteria of 25% of the cost of civic services) for a project with minimum 200 units is Rs 1 cr. If this subsidy is targeted only towards the EWS, the effective Capital Subsidy for each EWS unit works out to be Rs 200,000/-.

23. In the earlier sections of the report the affordability gap has been calculated as Rs 98,458, Rs 1,29,452 and Rs 167,141 for EWS, LIG-A and LIG-B units respectively. If GoI provides a targeted subsidy of Rs 75,000, Rs 1,00,000 and Rs 1,25,000 for EWS, LIG-A and LIG-B units respectively, approximately 75% of the affordability gap can be met as seen below:

	EWS	**LIG-A**	**LIG-B**

Sale Price	5,78,458	8,19,482	12,17,171
Income Ceiling	4,80,000	6,90,030	10,50,030
Affordability Gap	98,458	1,29,452	1,67,141
Subsidy	75,000	1,00,000	1,25,000
Subsidy as % of affordability gap	76.2%	77.2%	74.8%
Subsidy as % of sale price	13.0%	12.2%	10.3%

Moreover, the subsidy as a percentage of sale price will be the highest for EWS at 13% and lowest for LIG-B the lowest at 10.3%. These amounts are the upper ceilings and would be targeted only to the EWS/LIG units. It may be noted that, as observed earlier, the tax subsidy given on middle income housing loans is approximately Rs 2 lakhs per unit, although in percentage terms it is lower at 8% of the house value.

24. A majority of housing in India has been provided by the private sector for a long time. In the recent years, as a result of increased urbanisation the demand for housing has increased exponentially. At the same time, sustained economic growth and Government policies have increased demand for housing from urban residents. However, the supply of land for housing has not kept pace with these developments. As a result, the private housing market has increasingly started focussing on the upper income segments. As surplus land becomes scarce in urban areas, the demand-supply mismatch will aggravate; affordable housing for low income segments and weaker sections is already unavailable and the gap will become acute in the coming years. Traditionally, the State Housing Boards performed a gap filling role by developing affordable housing units; they were supported by Government budgets and a land bank was provided to them by the State Governments. However, in the last two decades, budgetary support for these agencies has come down steadily and their role in providing affordable public

housing has decreased. During the same time, their land bank was also not replenished by the State Government. As a result, today most State housing boards neither receive budgetary support nor have a land bank. Ironically, their role in providing affordable housing is becoming more relevant with the widening demand supply gap in the housing sector. The Task Force is of the opinion that the GoI should strongly support the re-emergence of the state housing boards in the affordable housing segment. Therefore the AHP scheme should also have a separate window for providing assistance to projects that are taken up by public sector entities.

10.3 Key Recommendations for dovetailing existing avenues of GoI support for affordable housing in partnership

Definition of EWS/LIG

25. At present AHP lays down the following main criteria for assistance :

a. Dwelling units should be a mix of EWS/LIG/MIG units with maximum size of a dwelling unit being 1200 square feet super area (carpet area of 80 sq m)with at least 25% of them for EWS of about 300 square feet(carpet area of 25 square mt.).

b. The sale price of dwelling units should have an upper ceiling in terms of Rs per square metre of carpet area. This ceiling is to be settled in consultation with States for different classes of cities. The costs are to be at levels which permit repayment of home loans in monthly instalments not exceeding 30-40% of the monthly income of the buyer.

c. The beneficiaries are to be selected and allotments made on a transparent procedure by the State/Implementing agency e.g draw of lottery, based on detailed guidelines approved by the State/UT government.

26. The AHP guidelines use both carpet area and super built up area and it is recommended that for the purpose of uniformity the term carpet area is used and Carpet Area should include kitchen, bath and toilet areas but should exclude the

balcony – glazed or unglazed, as recommended in the earlier sections of this report.

27. In addition, the rationale for reducing the minimum size of an EWS unit and the rationalisation of the sizes for LIG and MIG units to the categories of LIG-A and LIG-B which has been explained earlier in the report is equally applicable for AHP. Therefore, as recommended in the earlier sections of the report, the size specification of the various categories of housing units shall be as follows;

- For Economically Weaker Section (EWS): 21- 27 sq.m Carpet Area (Rentable Area)
- For Lower Income Group (LIG-A): 28-40 sq.m Carpet Area (Rentable Area)
- For Upper Lower Income Group (LIG-B): 41-60 sq.m Carpet Area (Rentable Area)
- Super Built up (Saleable) area of all above categories should not exceed 140% of Carpet area.

28. As far as income levels are concerned though AHP does not prescribe the income limits for the EWS/LIG segments, however as the beneficiaries are eligible for ISHUP, the income ceilings prescribed by MoHUPA therein would be considered as applicable. In view of the above, the earlier recommendations of the Task Force for enhancing the present income ceilings of EWS and LIG and redefining the income categories as EWS,LIG-A and LIG-B is recommended to be applicable for AHP, as follows;

Recommended income ceiling

Category	Existing	Recommended
For EWS	UptoRs 5000/-	Rs 8000/- per month per household

For LIG-A	Rs 5001-10000/-	Rs 8001- 15000/- per month per household
For LIG-B:	Not defined	Rs 15001- 20000/- per month per household

29. The Task Force recommends that the practice of fixing different price ceilings for affordable housing units for different classes of cities should continue. In addition, the Task Force recommends that the States factor in the benefit of the subsidies provided by the GoI and other State/local level subsidies while fixing the ceiling price. The Task Force also recommends that the States should consider market factors like cost escalation, phasing of the project, different economies of scale etc while determining the ceiling.

30. As discussed earlier, the ceiling of 25% of the cost of all civic services (external and internal) specified in AHP scheme results in low levels of subsidy that are not operationally meaningful for the developers to pursue. Therefore, the Task Force recommends that the ceiling of 25% of the cost of all civic services (external and internal) specified in AHP scheme be dropped.

31. The AHTF recommends that the subsidy of the AHP Scheme should be targeted to EWS, LIG-A and LIG-B segments only and not to the MIG segment as in the current formulation. The Task Force also recommends that the rest of the development mix should be left to the market forces to determine, as long as the minimum specified proportion is reserved for EWS/LIG-A/LIG-B units. As elaborated earlier, if MIG units are excluded and the existing subsidy at a project level is redistributed only to EWS and LIG units, the subsidy available to EWS/LIG units can be enhanced.

32. The Task Force recommends that the GoI support for affordable housing be focussed in the following sub-schemes.

a. **Revamped Integrated AHP scheme:**

i. As discussed before, currently the AHP scheme stipulates a reservation of 25% of units for EWS and provides an effective subsidy of only Rs 19,000 to Rs 26,000 per EWS unit. The Task Force recommends that for private sector projects that target at least 25% of the dwelling units(corresponding to 10% of FAR) towards EWS segment (with the mix for the rest of the segments being determined as per market dynamics), support under the AHP scheme is recommended to be at the rate of Rs 75,000 per EWS unit. In addition, interest subsidy to beneficiaries under ISHUP scheme would also be available like in the present scheme. The AHP subsidy would work out to approximately 13.0% of the sale price for EWS units (assuming Rs 5.78 lakhs as the selling price per unit).

ii. The State Governments would extend FAR concessions to atleast match the extent of FAR targeted for EWS units and provide concessions on approval fees etc.

iii. As discussed before, the AHB subsidy was envisaged as one of the instruments that would provide cross subsidy for the cost of EWS/LIG housing and infrastructure when land is being reserved through RAY reform conditions. The Task Force has recommended that atleast 15% FAR and 35% units be reserved for EWS/LIG categories under RAY reform conditions in the earlier sections of the report. Therefore the AHP scheme should also provide a window to provide cross subsidy for both EWS and LIG units when higher FAR is being provided for EWS/LIG units. The Task Force has discussed the option of recommending higher FAR concessions to mitigate the revenue loss when higher percentage of units are targeted for EWS/ LIG segments. In this context it must be noted that affordable housing projects are mostly coming up in the suburbs/periphery of cities. The Task Force has received feedback from developers that in these areas, already an FAR in the range of 1.75 to 2.25 is available for these projects. Even at these FAR, the density ceilings recommended by NBC are being reached, since EWS/LIG constructions are of higher density. Therefore if additional FAR concessions are provided they are likely to breach the density ceilings further. Moreover, FAR concessions in excess of what is currently available in these locations are not effective when compared with the cost of land and the additional cost of constructing taller and higher density units. The Task Force also notes that in some regions the FAR offered is less than 1.75 and recommends that a minimum FAR of 1.75 should be offered by State Governments in such regions.

iv. Further, the Task Force is of opinion that higher levels of targetting towards EWS/LIG-A/LIG-B segment is not possible by FAR concessions alone and that additional subsidy should be provided by GoI to offset the loss of project revenue due to the additional levels of targetting. Therefore, the Task Force recommends that GoI provide a subsidy for all EWS/LIG-A/LIG-B units for private sector affordable housing projects that target atleast 50% of the units (which corresponds to atleast 30% of FAR) for the EWS/LIG-A/LIG-B segments with atleast 25% of the total units for EWS segment. The Task Force recommends that the subsidy for EWS units should be Rs 75,000 per unit, for LIG-A units should be Rs 1,00,000 per unit and for LIG-B units should be Rs 1,25,000 per unit. This results in the AHP subsidy as a percentage of sale price being kept at 13% for EWS, 12.2% for LIG-A and 10.3% for LIG-B units as discussed in Para 20. Support from other schemes such as ISHUP and State Government incentives would also be available for these projects, like in the present scheme. The Task Force also recommends that the State Government provide compensatory FAR to match the reservations for EWS, LIG-A and LIG-B units.

v. The Task Force also clarifies that this higher level of subsidy is targeted exclusively at the EWS/LIG units and that MIG and HIG units are excluded.

vi. The Task Force also notes that while the tax benefit for middle income housing loans is Rs 2 lakhs per unit, in percentage terms the subsidy is only 8% as against the 13.0% to 10.3% being proposed for affordable housing units.

b. **Affordable Public Housing:** The Task Force recognises that Public Authorities will continue to play a pivotal role in the provision of affordable housing. The Task Force recommends that the revamped Integrated AHP scheme above shall also be applicable for projects undertaken by public housing agencies, where land is provided by the Government. Other support from GoI such as ISHUP will also be available to the beneficiaries in the EWS/LIG-A/LIG-B category in such projects, like in the present scheme.

c. **Viability Gap Funding for Affordable Housing:** The Task Force has noted the success of the Viability Gap Funding Scheme of the Government of India for infrastructure projects, especially in the highways sector. The Viability Gap Funding Scheme has benefitted from a simple formula for assistance, transparency in selection of projects and in the simplicity of disbursal procedures.

   i. Similarly, in the housing sector, public agencies may pursue such an approach. The Government/ local authority may target to provide a certain number of affordable housing units in identified locations to eligible beneficiaries.

   ii. There are also instances when land may be made available for constructing EWS/LIG through various means; States are proposing that land assembled through the reform condition of RAY could be pooled at a common location within a specified radius of the projects; some developers may prefer to surrender the land reserved for EWS/LIG to the Government; the Government itself may assemble land for affordable housing through town planning schemes. The Government/local authority can make such land available to private sector which will be responsible for financing, construction and sale of units.

iii. The Government/local authority may invite competitive bids from private developers to supply such units at a pre-specified price to beneficiaries selected using criteria pre-determined by the respective Government/ local authority. The Government/local Authority may also develop an Affordable Housing Policy (the guidelines for which are provided in the later sections) to reduce the cost of affordable housing and to simplify procedural aspects. Private developers may utilise full/part of their existing private land within the identified locations or land provided by the Government, as the case may be, to supply such units. The bidding criteria would be the capital subsidy required by the developer to supply the units at the pre-specified price. The developer quoting the least subsidy would be selected.

iv. In order to promote such projects, the Task Force recommends that the GoI should provide a subsidy of upto 20% of the project cost of EWS/LIG-A/LIG-B units as viability gap. The GoI would provide the subsidy percentage determined through competitive bidding or 20% of project cost whichever is lower. In cases where the subsidy determined through competitive bidding is higher than 20%, the GoI will provide 20% subsidy and the rest will be borne by the respective State Government/ local authority. The norms of project cost for EWS/LIG-A/LIG-B units may be determined by the Ministry based on unit specifications and cost norms. It may be noted that the 13% to 10.3% subsidy being proposed under the sub-scheme Revamped Integrated AHP scheme is a fixed percentage and is calculated on the sale price which would include the cost of private land and profit margins as per industry practice. As opposed to this, the ceiling of 20% proposed under this Viability Gap Scheme will be calculated on cost norms determined for the project; where Govt land is provided would exclude the cost of land and is also subject to the actual viability gap subsidy percentage being determined through competitive bidding.

d. **Unit specific tax and fee concessions:** The GoI and State Governments already have announced tax and fee concessions for affordable housing projects. Service tax exemption and income tax deduction (under Sec 35 AD of the Income Tax Act) are available for affordable housing projects. The Task Force is of the opinion that these concessions should be extended to the three sub-schemes outlined above. The Task Force is of the opinion that these concessions should be available even to those projects which may be providing units that match the physical specifications for EWS, but not the rest of the definition for EWS in terms of income of beneficiaries and ceiling on sale price. Therefore the Task Force recommends that housing projects where at least 25% of the units are of sizes that meet the EWS size specifications be given the status of "affordable housing projects" and that the existing tax and fee concessions be extended to these projects without grant of any other assistance as proposed in the other sub-schemes.

33. The AHTF believes that a model as presented above would help better target the AHP subsidy to deserving beneficiaries in the priority segment, and would both incentivise developers to build more affordable units as well as make the unit price closer to the price affordable by the targeted beneficiaries. Through the above arrangements, the Task Force believes, GoI would be able to mobilise significant proportion of FAR for EWS/ LIG segment, and in return provide integrated support through AHP, ISHUP, tax and other concessions.

Routing of AHP subsidy

34. In case of private sector projects, the subsidy would be routed through the lead financing institution for that project and requests for subsidy would need to be routed through the respective State Government.

35. In case of public sector projects, the request for subsidy will be routed through the respective State Level Nodal Agency(SLNA) and the GoI subsidy would also be routed through the SLNA.

Minimum size of projects

36. As regards the size of the projects considering that normally a 1 Ha project should be proposed for affordable housing and considering the density norms, it is recommended that projects comprising of a minimum of 250 DUs be made eligible under AHP.

Guidelines for Formulation of State Affordable Housing Schemes/ Policies

37. The Task Force recommends that States develop Affordable Housing Schemes/operational guidelines to take optimum benefit of AHP and provide the enabling framework for creation of affordable housing stock. The scheme/policy may have differing strategies and models across cities or even within a city. These schemes/policies should provide clear incentives/concessions both financial and non-financial, which the State/ULB would offer to affordable housing projects by the private sector. A suggested list of such incentives/concessions are as follows:

    a. Financial Incentives:

    - Government land (if offered) and its price
    - Waiver of development related charges, such as External Development Charges (EDC), Building Plan approval fees, Conversion charges, etc.; levied by State Government or Local Governments
    - Reduction of stamp duty on buying dwelling units in Affordable Housing projects, down to 0% for EWS and LIG category and to 5% for MIG
    - Buyback price for EWS/LIG DUs

    b. Non – Financial Incentives:

    - Facilitate clearances including those from departments like Fire, Police, PWD, Land revenue etc for approval of Affordable Housing Projects within a maximum period of 60 days.
    - Additional FSI
    - TDR framework
    - Revision of building codes for EWS and LIG segments in group housing projects

- Demand side interventions such as programs to remove entry barriers for securing home loans (such as lack of identity proof, address proof, income proof, etc.); and Entry barriers in terms of the disinclination of financing agencies/ banks to provide home loans to EWS/ LIG families. Other proactive action towards increasing financial literacy, particularly in the matter of taking and repaying loans from formal establishments such as housing finance companies; and development of mechanisms to reduce vulnerability of these sections to fluctuations in income.

A key aspect that they should address is related to the allotment of the EWS/LIG-A/LIG-B units which should be done either directly by State/Local Govt or under