



CREDAI
AFFORDABLE HOUSING COMMITTEE PRESENTS

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Affordable Housing – Opportunities & Challenges

Introduction

Affordable housing can accelerate economic growth through its linkage with the other sectors of the economy. The output multipliers of residential construction (proxy for housing sector) are higher than sectors like agriculture, electricity, trade, railways, communication, and banking and insurance (NCAER, 2014). The direct employment linkage coefficient of residential construction is the highest among all sectors even though the nature of employment is largely informal.

The Government's recent thrust on affordable housing through policy measures, viz., government incentive schemes, accordance of infrastructure tag, interest subsidy scheme under PMAY have resulted in sharp rise in new housing projects in the affordable segment for low income groups. From the consumers' perspective, while availability of low cost credit is driving the demand for affordable housing, policies like Real Estate Regulatory Authority (RERA) Act may infuse fresh buyer interest in the realty sector.

Opportunities - Affordable Housing

While efforts to provide low cost housing have been made for many years (National Housing Policy,1994; Jawaharlal Nehru National Urban Renewal Mission, 2005; Rajiv Awas Yojana 2013), the Pradhan Mantri Awas Yojana (PMAY) launched in 2015 provides a fresh impetus – the PMAY-Urban (PMAY-U) subsumes all the previous urban housing schemes and aims at ‘ Housing for All’ to be achieved by the year 2022.

The Opportunity Size

The opportunity size is immense i.e 50 million homes (and growing) spread over the next 5 years. The breakup is 20 million homes in Urban areas under PMAY(U) and 30 million homes for rural areas under PMAY (Gramin).An article in Hindu pegs the urban shortage to increase to 3.2cr homes by 2022.

Link for the news:

<https://www.thehindubusinessline.com/news/real-estate/urban-housing-shortage-to-touch-34-cr-units-by-2022-report/article6901847.ece>

Opportunities - Affordable Housing

Geographical Spread of the Opportunity (Urban & Rural Areas)(in millions)

STATES	URBAN	RURAL	TOTAL
Uttar Pradesh	5.4	14.6	20.0
Maharashtra	5.0	5.5	10.4
Bihar	1.9	6.9	8.8
Andhra Pradesh	3.7	4.0	7.7
West Bengal	3.4	4.2	7.6
Madhya Pradesh	2.2	5.1	7.4
Rajasthan	2.1	4.5	6.6
Tamil Nadu	3.9	1.8	5.7
Gujarat	2.9	2.1	5.0
Karnataka	2.8	2.1	5.0
North-eastern states	1.4	2.9	4.2
Kerala	2.7	0.8	3.6
Odisha	0.9	2.6	3.5
Delhi	3.0	0.3	3.3
Jharkhand	1.1	1.4	2.5
Haryana	1.0	1.3	2.3
Chattisgarh	0.8	1.4	2.2
Uttarakhand	0.4	0.5	0.9
Jammu& Kashmir	0.3	0.5	0.8
Himachal Pradesh	0.1	0.5	0.6
Goa	0.2	0.1	0.3

The figures take into consideration additional housing needs over and above the 20 million and 10 million envisaged by the government for urban and rural areas respectively.

Opportunities - Affordable Housing

Growth Drivers- Large-scale Affordable Housing is the need of the Hour. Affordable housing segment in India is set to grow at a faster pace than the rest of the real estate sector-at over 30% in the medium term.

1. Strong policy impetus:- In the recent years, affordable housing has received a strong impetus from the government. Launch of Housing for all mission and slew of other key policy injections such as infrastructure status, interest subvention, new PPP policy all bode well for the sector's evolving landscape.

2. Disordered urbanisation:- A large pool of urban population belongs to the informal sector, which stay in slums and squatter settlements, highlighting the need for functional housing

3. Nuclearisation of families :-The demand for housing in the urban context becomes prominent with shrinking average family size. 56% of household in urban India now have four or less members, a marked change from 10 years ago, when the median household size was between four and five.

4. Increase migration to cities:-According to estimates, around 600 million people are expected to settle down in urban India by 2031, an increase of whopping 59 % over 2011.

5. Easy access to capital:- Interventions in the form of interest subsidies on housing loans and micro financing has made borrowing easy

Opportunities - Affordable Housing

Potential for Developers in Affordable Housing

- ❑ Private sector participation in the affordable housing space in India has been limited so far. Majority of developers have taken up affordable housing projects only during time periods when sales growth for luxury or premium houses has been sluggish.
- ❑ However, with the government's focus on "Housing for All" there are huge opportunities for private developers to participate in this segment.
- ❑ Recently, the Ministry of Housing has finalised a public private partnership policy for affordable housing to encourage private sector participation
- ❑ Earlier, in the April 2017, **Confederation of Real Estate Developer's Association of India (CREDAI)**, the apex body of private real estate developers has announced its first major private investment into affordable housing. It has launched 375 affordable housing projects with an investment commitment of Rs.700 billion. These projects will involve development of over 86 million sq.ft to build a total of 237,000 housing units across 53 cities in 17 states including Maharashtra, Gujarat, Karnataka, Rajasthan, NCR, Telangana, Andhra Pradesh among others.
- ❑ With an enabling environment, the private sector can help in ensuring faster and efficient delivery of affordable housing projects.

Opportunities - Affordable Housing

Policy Initiatives / Fiscal Incentives- A Plethora of Opportunities for the Developers in the Affordable Housing

❑ PPP Policy :-

- The Government of India has announced a new PPP Policy for Affordable Housing in September 2017, that has opened up immense potential for private investments in affordable housing projects.
- The new policy gives eight PPP options to the private sector to invest in the affordable housing segment; of which two are for private development on private land (central assistance of up to Rs.250,000 per house to buyers) whereas the other six are for private development on government land.
- This policy seeks to leverage under-utilised private and public lands to meet the Housing for All targets by 2022.
- The new policy is drafted to minimise risks associated with land, financing and capital investments, maintenance and recovery of capital invested.

❑ Infrastructure Status to Affordable Housing:-

- With the grant of infrastructure status, the affordable housing sector is expected to receive a greater level of attention and support from the government in the form of dedicated budgetary allocations and focused policy initiatives.

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- In line with the key infrastructure verticals such as roads and highways, developers of affordable housing will be entitled to various benefits such as tax exemptions, subsidies and cheaper loans.
- Further, since the infrastructure sector enjoys an expanded horizon in terms of funding avenues, the same will be available to the affordable housing companies as well, providing them with new avenues to expand their funding portfolio.
- **Priority Sector Lending :-** As per the existing RBI guidelines, the maximum limit of priority sector lending to housing finance is restricted to 5% of the total priority sector lending on an ongoing basis. After the new status, the limit is expected to be raised.
- **External Commercial Borrowings ECBs for Affordable Housing:-** Since the affordable housing segments has now been given the “Infrastructure Status” it now gets covered under the Track I of the ECB guidelines. The move has made it easier for eligible borrowers to raise ECBs for affordable housing projects.

Eligibility Criteria for Developers to avail ECBs:-

- a) Minimum 3 years experience in undertaking residential projects.
- b) Good track record in terms of quality and delivery of projects.
- c) Should not have defaulted in any of their financial commitments to banks/financial institutions.
- d) Projects should have secured all requisite clearances and should not be subject matter of any litigation.

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❑ **Income Tax Exemption under S.80IBA of I.T Act:-**

- A developer can claim 100% deduction on profits derived from developing and building affordable housing projects if carpet area of an residential unit is up to 30 sq.m in the case of metro cities and up to 60 sq m for the rest of the country including the peripheral areas of metros, limit of 60 sq m will apply.
- The times of completion of affordable housing projects for the purpose of claiming 100% deduction on profit has been increased from 3 years to 5 years which will enable large scale affordable housing projects to claim the said benefit.

❑ **Tax Breather for Notional Rental Income:-** The houses which are occupied after getting completion certificates are subjected to tax on notional rental income. As per the Budget 2017-18, the builders for whom constructed buildings are stock in trade, the rule will be applicable only after one year of receiving the completion certificate. The law will provide some breathing time for developers to liquidate their inventory.

❑ **Reduction in Holding Period for Immovable Assets:-** The holding period for immovable assets has been reduced from 3 years to 2 years and indexation for capital gain tax shifted from April 1,1981 to April 1,2001,

Opportunities - Affordable Housing

Subsidies, Taxes and Interest rate Incentives for Buyers –

❑ **Credit Linked Subsidy Scheme (CLSS) under PMAY:-**

- The Credit linked subsidy Scheme (CLSS) of the Pradhan Mantri Awas Yojana (Urban) seeks to expand the flow of institutional credit for new construction and incremental housing.
- CLSS is being provided on home loans taken by eligible urban household from scheduled commercial banks, Housing finance companies, regional rural banks, co-operative banks and other financial institutional institutions for acquisition and construction of houses..
- The approximate subsidy amount which can be availed by beneficiary buyer under CLSS is EWS & LIG Category :- approx. amount upto Rs. 2,67,280/-, MIG-I Category :- approx. amount upto Rs.2,35,038/-, MIG-II Category :- approx amount upto Rs.2,30,156/-

❑ **GOODS SERVICE TAX (GST) OF 8% ON AFFORDABLE HOUSES :-**

- **GST OF 8% in an Affordable Housing Project:-** low-cost houses up to a carpet area of 60 square metres per house in an affordable housing project which has been given infrastructure status vide notification of Government of India, in Ministry of Finance, Department of Economic Affairs vide F. No. 13/6/2009-INF, dated the 30th March, 2017.

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- **GST OF 8 % for buyers who has availed houses under CLSS:-** a civil structure or any other original works pertaining to the “houses constructed or acquired under the Credit Linked Subsidy Scheme for Economically Weaker Section (EWS)/Lower Income Group (LIG)/Middle Income Group-1 (MIG-1)/ Middle Income Group-2 (MIG-2)”under the Housing for All (Urban) Mission/ Pradhan Mantri Awas Yojana (Urban).
 - **Developers to pass on benefits of Input Tax Credit to buyers:-** Input tax credit (ITC) is being seen as the key feature of GST,it allows developers to avail of credit for input taxes paid at each stage of production or service delivery in the succeeding stages of value addition. The government has mandated developers to essentially pass ITC benefits to buyers in the form of reduced prices .
- ❑ **Tax Deduction on principal Amount under Section 80 C :-** The amount paid as repayment of principal amount of a home loan by an individual is deductible from the taxable income under Section 80C of the Income Tax Act. The maximum tax deduction allowed under this section is Rs. 150,000.
- ❑ **Tax benefit for first-time buyers under Section 80EE :-** In the Budget 2016, Section 80EE, which allows for an additional deduction of Rs 50,000 on interest on home loan, was re-introduced as an interest over and above Rs 1.5 lakh available under Section 80C and Rs 2 lakh deduction available under Section 24 of the I-T Act.

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❑ **Tax deduction on payment of Interest under Section 24 of I.T**

Act:- Under Section 24 of the Act, tax benefit on home-loan payment of interest is possible as a deduction. According to the Section, interest paid on the home loan is deducted from the house property income where the loan is taken for reconstruction, repair, purchase or construction of a residential property. The limit has been capped at Rs 2 lakh on a self-occupied home under Section 24 which was increased in Budget 2014-15 from Rs 1.5 lakh earlier. However, there is no maximum limit prescribed for a home loan taken on a property which has not been self-occupied. In this case, the tax deduction of the whole interest amount can be availed of under the Section.

❑ **Tax benefits on Pre-Emi interest paid for under construction**

property:- Housing loan interest paid till the date of possession will be considered as Pre-EMI interest and can be claimed in 5 equal installments (subject to max limit) starting from the Financial Year in which buyer receive the possession of the property. Buyer can claim tax deduction only after receiving the possession of the property.

Issues & Challenges - Affordable Housing

While the efforts of the Government to boost affordable housing have generated positive outcome, there are various factors affecting the pace of affordable housing development in India and restricting private sector participation:

- (i) lack of suitable low cost land within the city limits.
- (ii) lengthy statutory clearance and approval process.
- (iii) Shortcomings in development norms, planning and project design.
- (iv) Lack of participation of large organised real estate players due to low profit margins.
- (v) High cost of funds for construction finance making the projects unviable.
- (vi) Lack of suitable mechanism for maintenance.
- (vii) Challenges in beneficiary selection.
- (viii) Capacity constraint or inadequate capacity of the implementing agencies.
- (ix) Lack of access to home finance to buyers as most of them are employed in informal sector, earning daily wages, with no formal income documents.
- (x) Lack of awareness among buyers about financing options and government schemes such as CLSS.

The Way Forward:- Affordable Housing

- ❑ Post the grant of infrastructure status, release of the new PPP policy and the various tax incentives announced by the central as well as state government, the onus is now on the private developers to come forward in building affordable housing projects.
- ❑ With the roll-out of RERA and GST, developers should bring in greater transparency in their projects and should come out with new business models to make affordable housing projects viable and more affordable to masses.
- ❑ Developers should also use the latest low-cost construction technologies available to ensure the sustainability and feasibility of projects.

Conclusion:- Affordable Housing has now taken the centre stage in India's real estate sector. The government's financial and policy thrust, regulatory support, rising urbanisation and increasing purchasing power among low income group is converting demand for affordable homes into a commercially viable opportunity.

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