



CREDAI
AFFORDABLE HOUSING COMMITTEE PRESENTS

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Critical Issues & Recommendations in Affordable Housing

Introduction:- Affordable housing has been a buzzword for more than a decade now, with successive governments looking to tap affordable housing as a medium to bridge the housing shortage gap in India –most of which is in the mid income and low-income categories. However, the segment hasn't really gained the required momentum to address this gap.

There are various factors affecting the pace of affordable housing development in the country and restricting private sector participation in the sector. Examining the value chain of an Affordable Housing Project helps identify these critical issues and the corresponding bottlenecks. While doing so, it is important to critically examine the stakeholders involved in various activities and get a holistic understanding of the issues from stakeholders perspective. The key factors emerging from a close examination include the following

Critical Issues

1) Improper selection of land parcels for AH projects:-

- Lack of availability of suitable land parcel within city limits
- High prices of land discouraging developer driven projects
- Lack of employment opportunities in the vicinity discouraging people from staying in these units
- Lack of External trunk infrastructure, Social infrastructure and Connectivity through public transport options, increasing the cost of living thereby resulting in lower occupation.

2) Lengthy statutory clearance & approval processes:-

- Over 20-30 clearances needed for each housing project, that too from multiple authorities.
- Takes over 1.5 to 2 years for obtaining all the approvals, increasing the gestation period and project cost.

Critical Issues

3) Shortcomings in development norms, planning & project design:-

- Incongruence between the affordable housing policies of Central and State governments creating hurdles in availing the benefits of Gol schemes.
- Restrictive FAR norms, density norms which make the affordable housing segment unattractive.
- Underdeveloped infrastructure (especially in the peripheral areas where these projects are located) , thereby questioning project viability.

4) High cost of construction finance:-

- High cost of funds for construction finance (Developers in this segment are typically city/ region specific having limited bandwidth) making these projects unviable.
- Lack of suitable credit enhancing financial products for developers

Critical Issues

5) Lack of access to credit (beneficiaries):-

- Irregular, informal income sources with variations due to seasonality.
- Risk management practices, cost structures of Banks, HFCs not aligned to these kind of customers.
- Higher lending rates (small loan size, higher perceived risk).

6) Challenges in Beneficiary selection:-

- Beneficiaries do not relocate to the units allotted to them (location not suited to their occupation).
- Challenges in beneficiary selection process.
- Lack of a beneficiary database to facilitate AH developers/ FIs to identify their target customers.
- Lack of awareness among customers about financing options and GoI schemes such as Credit Linked Subsidy Scheme (CLSS).

Critical Issues

7) Lack of a suitable mechanism for maintenance:-

- Negligence in maintenance of Affordable Housing units creating 'New Urban Slums'.
- Lack of sufficient funds/Institutional mechanism to facilitate the required maintenance.

8) Capacity Constraints:-

- Inadequate capacity of implementing agencies.
- Lack of private participation, beyond land arbitrage models and guidance documents for PPP in the sector such as Model Concession Agreements/ guidelines.
- Lack of mainstreaming of low cost technologies to achieve economies of scale.

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Recommendations

- 1) **Ease of Land availability** – The government needs to regularly release land parcels for affordable housing projects, identified within municipal limits and bring more peripheral lands into developable limits of the city authorities.
- 2) **Synchronization of State policies with Central policies for Affordable Housing** – Alignment of State Affordable Housing policies with Gols Affordable Housing policies to eliminate bottlenecks in availing central incentives as well as ensuring compliance with the State policies, required for approval purposes at state/ city level.
- 3) **Relaxed Development Norms** – Easing FAR and density norms will be critical for the development of affordable housing. Also, the government should review the master plan/zoning provisions on a regular basis, so as to allow for optimum allocation of land for affordable housing.

Recommendations

4) Enhancing the capacities of Implementing Agencies:

Preparation of guidelines and framework to assist Capacity building of implementing agencies to enable them get a thorough understanding of the complete life cycle of projects developed through new modes of project development e.g. Public Private Partnerships (PPPs), which is one of the key focus of PMAY (i.e. Affordable Housing in Partnership).

5) Invest in Infrastructure Upgradation – The emphasis cannot be on releasing land parcels only, but focus also needs to be on providing the necessary connectivity and social infrastructure, to allow these projects to develop as habitable and vibrant communities.

6) Dedicated approval window for affordable housing –

Building approval process needs to be streamlined; a separate fast-track process needs to be put in place for affordable housing projects. For affordable housing to work, accelerating the building approval processes is critical, in order to limit the gestation period and the associated costs.

Recommendations

7) Capacity building of developers – Promotion of knowledge sharing platforms/ forums to help developers understand the best practices/models adopted in other states, adoption of low cost construction technologies and workable solutions to reduce construction costs, among others.

8) Capacity building of construction manpower –

- Eliminate the bottleneck in mainstreaming new technologies by providing appropriate training and skilling the construction manpower in emerging and low cost technologies and developing a pool of skilled manpower.
- Developing and implementing new certification programs to ascertain the skill of supervisory and managerial workforce in low cost and emerging construction technologies

Recommendations

9) Strengthen Micro-Finance – Not only does the supply side need intervention, the government needs to improve the institutional environment for the lower income categories to access housing microfinance and other financial tools. Housing micro-finance gives these borrowers access to credit and the opportunity to develop a credit history, which can assist them in their loan approval processes, going forward.

10) Access to low cost Construction Finance – Mechanism to evolve a developer rating system (even for small, regional developers) based on completion of similar projects in the past to reduce the perceived risk by FIs and lower the cost of construction finance – Development of financial products for credit guarantee/enhancement of small developers/Affordable Housing projects or setting up/ wider implementation of credit guarantee initiatives.

Recommendations

12) Relaxation on registration charges and stamp duties –

To further strengthen the demand for such units, the government should look at rationalizing/waiving off registration charges, as well as stamp duties for affordable housing units.

13) Use of advanced technologies –

There is a need for developers to invest in innovative construction technologies to promote mass housing developments at subsidized construction costs. Portable modular housing units and prefabricated construction technology are some techniques that could be looked at to address affordable housing needs.

14) Establish long-term sustainability mechanisms-

Operation & Maintenance-

CREDAI NATIONAL - AFFORDABLE HOUSING COMMITTEE



Mr. Shantilal Kataria

Chairman, Affordable Housing Committee
Credai National
President, Credai Maharashtra
Email:- katariashantilal@gmail.com

Mr. Majid Kachhi

Convenor, Affordable Housing Committee
Credai Maharashtra
Email:- kachhigroup@gmail.com

Mr. Suhas Merchant

Chairman, RERA
(Legal Committee Credai National)
Email:- srmerchant@vsnl.com

Mr. Mayank Modi

Credai NCR-Delhi

Mr. Sanket Shah

Credai Ahmedabad , Gujarat

Mr. Sachin Kulkarni

Convenor, Affordable Housing Committee
Credai National
Email:- sachin@vastushodh.co.in

Mr. Dilip Mittal

Convenor, Construction Cost Committee
Credai Maharashtra
Email:- dilip@mittalbrothers.com

Mr. Pankaj Kothari

Member Affordable Housing
Credai National
Email:- parkoakl@gmail.com

Mr. Suresh Patel

Credai Surat, Gujarat

Mr. Sarvesh Javdekar

Credai Pune Metro

Supporting Partner



भारतीय स्टेट बैंक
State Bank of India

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THE BANKER TO EVERY INDIAN

Contact Us:
CREDAI

5th Floor, PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi-110 016

Tel: (011) 43126262/ 43126200 / Fax: +91 11 43126211 / Email: info@credai.org

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