



Housing for All by 2022: A Big Opportunity in the Making

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Executive Summary

India’s urban population has grown five-fold in the last half-century to approximately 430 million inhabitants in 2015 and the number is expected to rise to 600 million by 2030, accounting for 40% of India’s population.¹ Such rapid urbanization is proving to be a challenge as well as an opportunity for the economy, thereby making the government expedite its efforts towards providing adequate infrastructure, services and affordable housing. The government has announced its ambitious plan of “Housing for All by 2022” in urban areas and it has broadened its Credit Linked Subsidy Scheme (CLSS) to include Middle Income Group (MIG) and also offered incentives across the value chain.

Industry participants estimate that USD 2 trillion in investment is needed for the successful completion of “Housing for All by 2022.” If executed well, this is a big opportunity in the making for the Indian economy with a multiplier effect and benefits that traverse sectors ranging from realtors, building material suppliers, brown/white goods manufacturers to housing finance companies (HFCs).

Unmet Housing Demand

India is the world’s second most populous country, housing around 18% of the world population (1.25 billion people). Despite strong growth in housing supply in recent years, India still faces a shortage of houses — especially in urban areas, which comprises 35% of the country’s population.

In 2012, the housing shortage in urban and rural India was estimated at 19 million and 44 million units, respectively. The National Real Estate Development Council estimates that the total housing requirement in India will increase to 114 million units by 2022 from 63 million in 2012.

Estimated Housing Requirements by 2022

Source: National Real Estate Development Council (NAREDCO), Mirae Asset Global Investments (2017)

	Urban (mn units)	Rural (mn units)	Total (mn units)
Housing shortage in 2012	19	44	63
Additional Requirement by 2022	27	24	51
Total	46	68	114

¹ United Nations, Department of Economic and Social Affairs; Mirae Asset Global Investments (2017)

The ratio of rural-to-urban housing shortage is 60:40. In terms of income group, 40% of the shortage originated from the Economically Weaker Section (EWS), while for Lower Income Group (LIG) and Middle Income Group (MIG) segments accounted for 50%.

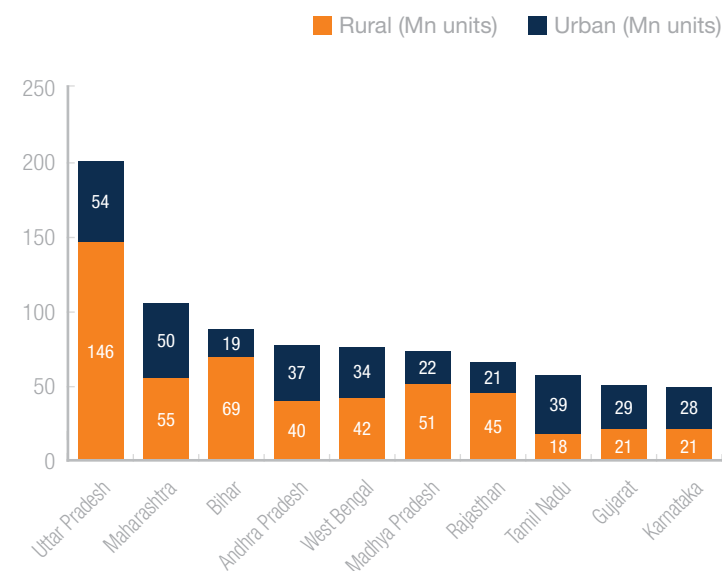
Housing Requirements in 2022 by Income Group

Source: NAREDCO, Mirae Asset Global Investments (2017)

Income Group	Percent of Housing need
Economically Weaker Section	40
Lower Income Group	30
Medium Income Group	20
High-Income Group	10

Housing Needs in Top 10 Indian States by 2022

Source: NAREDCO, Mirae Asset Global Investments (2017)



Constraints for Adequate Supply

Constraints for adequate development of housing supply in India range from land, regulations and skilled manpower to finances. As seen in the table of housing requirements by income, the housing shortage was more acute for EWS and LIG/MIG categories, particularly in urban areas, while the majority of the new housing supply was beyond the affordability of these segments. These are structural issues that the new government has identified and is seeking to resolve.

Constraints for Adequate Housing Supply

Source: Mirae Asset Global Investments (2017)

- Unavailability of urban land
- Delay in approvals from concerned authorities
- Financial constraints for low-income households
- Limited financing options for developers

Housing for All by 2022

Growth in housing is restrained by affordability as opposed to pure supply-side limitations. After having recognized such financial considerations, the government seems to have started to address this issue. The Indian government has announced the “Housing for All by 2022” mission in order to provide affordable houses in urban areas.

This scheme will include various options for urban housing which include slum rehabilitation with participation of private developers using land as a resource, promotion of affordable housing for weaker sections through credit-linked subsidies, affordable housing in partnership with public and private sectors, and subsidies for beneficiary-led individual house construction or enhancement.

This was followed by three further concessions for entities across the housing value chain.

1. Granting of infrastructure status to affordable housing

In the Union Budget of FY 2018, the government proposed granting infrastructure status to affordable housing. This should help affordable housing developers diversify their funding sources as well as reduce the cost of funds.

2. Long-term infrastructure bonds to be exempted from Cash Reserve Ratio (CRR) / Statutory Liquidity Ratio (SLR) requirements

Banks are able to raise long-term bonds (minimum maturity of seven years) for lending to the affordable housing segments. Such bonds will be exempted from CRR/SLR requirements. In this context, lending to affordable housing is defined as housing loans eligible under priority sector lending by the Reserve Bank of India and also housing loans to individuals up to INR 5 million (USD 77,500) for house values up to INR 6.5 million (USD 100,000) located in six metropolitan centers: Mumbai, New Delhi, Chennai, Kolkata, Bengaluru, and Hyderabad.

3. Classification under priority sector lending

Housing loans to individuals up to INR 2.5 million (USD 38,000) in metropolitan centres with population above one million people and INR 1.5 million (USD 23,000) in other centres are classified under priority sector lending.

Government Incentives

Source: Ministry of Housing and Urban Poverty Alleviation, Government of India, Mirae Asset Global Investments (2017)

In-Situ Slum Redevelopment	Credit Linked Subsidy	Affordable Housing in Partnership	Subsidy for Beneficiary-Led Individual House Construction for Enhancement
<ul style="list-style-type: none"> Using land as a resource with private participation Extra floor space index (FS)/floor area ratio (FAR) and transferable development rights (TDR), if required Gol grant of INR 100,000 per house 	<ul style="list-style-type: none"> Interest subvention subsidy for EWS and LIG for new house for incremental housing Upfront subsidy @ 6.5 percent for EWS and LIG for loans up to INR 600,000, calculated at NPV basis Higher tenure/loan sizes admissible 	<ul style="list-style-type: none"> With private or public sector, including parastatal agencies Central assistance of INR 150,000 per EWS house in projects where 35 percent of constructed houses are for EWS category 	<ul style="list-style-type: none"> For individuals of EWS category requiring individual house State to prepare a separate project for such beneficiaries Central assistance of INR 150,000 per beneficiary

Pradhan Mantri Awas Yojana

The government housing schemes are run under Pradhan Mantri Awas Yojana (Prime Minister housing scheme). The government intends to use its mandate to plug the affordability gap by providing 20 million houses to the EWS and LIG in cities and small towns of India by 2022. Further, as announced in the recent fiscal budget, the Ministry of Housing has launched a one-year scheme subsidizing interest on home loans meeting certain criteria (annual income, apartment size and loan amount), also targeting the middle-income housing (MIG) population.

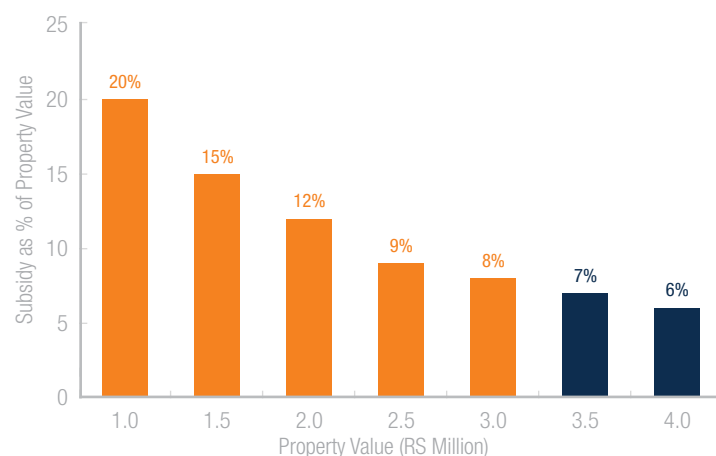
The affordability gap is the difference between the price of a house and the maximum amount a household can pay. The task force for promoting affordable housing in 2012 estimated that the affordability gap was from INR 100,000 to INR 200,000 (USD 1,500 to USD 3,000) for the EWS segment and from INR 700,000 to INR 1.2 million (USD 11,000 to USD 18,500) for the LIG segment.

EWS: To increase the addressable market size, the annual household income ceiling for EWS has been revised to INR 300,000 from INR 200,000. The subsidy is 6.5% on loans below INR 600,000 with a tenure of 20 years. The net present value of the interest subsidy works out to INR 220,000 (3,000 USD) and is deducted directly from the principal outstanding.

LIG: The government floated an interest scheme for Lower Income Group (LIG) borrowers with annual household income up to INR 600,000 (USD 9,000) effective 1st January 2016. The subsidy is 6.5% on INR 600,000 (USD 9,000) for loans below INR 1.2 million (USD 18,500) with a tenure of 20 years. The net present value of the interest subsidy works out to INR 220,000 (3,000 USD) and is deducted directly from the principal outstanding.

Savings Range

Source: HSBC, Mirae Asset Global Investments (2017)



*Note: Loan-to-value ratio assumption of 75%

MIG: This interest subsidy scheme for middle income group (MIG) is for first time-borrowers effective 1st April 2017. The scheme provides an interest subsidy of 4% and 3% for loans up to INR 900,000 and INR 1.2 million (USD 14,000 to USD 18,500), respectively, for borrowers whose household income is below INR 1.2 million and INR 1.8 million (USD 18,500 to USD 28,000), respectively. The Union Budget for FY 2018 apportions INR 10 billion (USD 150 million) for this subsidy scheme and we believe that the appropriation could be increased with the higher demand.

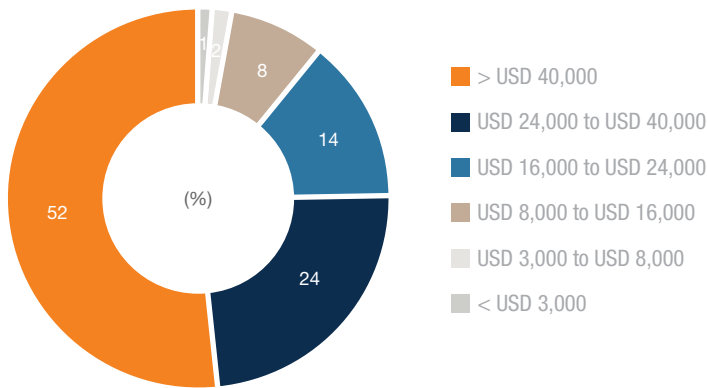
More than 90% of Indian Households are Eligible

Source: Ministry of Housing and Urban Poverty Alleviation, Government of India, Mirae Asset Global Investments (2017)

Particulars	MIG I	MIG II
Household Income (INR p.a)	1,200,000	1,800,000
Interest Subsidy (%)	4.00%	3.00%
Maximum loan tenure (years)	20	20
Eligible Housing Loan Amount for Interest Subsidy (INR)	900,000	1,200,000
Dwelling Unit Carpet Area	90 Sq. m.	110 Sq. m.
Discount Rate for NPV calculation	9.00%	9.00%

Nearly 50% of Domestic Home Loan are below INR 2.5 million (approximately, USD 40,000)

Source: NHB, Kotak (2017)



Opportunity in the Making

Affordable housing is a big opportunity in the making and it could have a multiplier effect on the economy. Multiple growth drivers for housing include continued urbanization ensuring strong housing demand in Tier 2 and Tier 3 cities, rising income with increasing affordability, smaller nuclear families comprised of fewer individuals per household, tax incentives, and marked slum redevelopment.

One benefit could be that housing finance companies (HFCs) will witness secular growth. Despite the mortgage industry growing by almost 25 times in the last 15 years (from INR 400 billion in 2000 to INR 10 trillion in 2015, or USD 6.2 billion to USD 150 billion), the opportunity for housing financiers remains large. India's mortgage penetration is still very low at 9% versus high double digits for developed countries (30-70%).

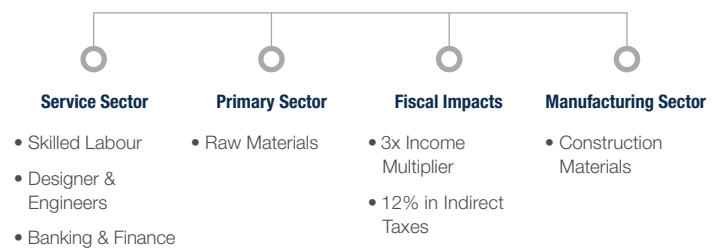
Along with meaningful job creation, the benefits traverse across sectors, ranging from housing finance companies (HFCs) to

realtors, building material suppliers (cement, steel, tiles, paints, plywood, pipes, electric appliances etc.) and brown and white goods manufacturers. Furthering the housing and real estate sector has a multiplier effect for the economy as shown in the exhibit below.

Multiplier Effect in the Housing Sector

Source: Government of India, Mirae Asset Global Investments (2017)

Housing Sector Multiplier Effect



The Indian government is demonstrating its commitment toward bettering the lives of its citizens. "Housing for All by 2022" is the latest initiative in a series of accelerated constructive measures that have been undertaken by the Narendra Modi administration. As investors based in India with regional scope throughout Asia, we are excited by the future opportunities arising from these changes.

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