Channelling Financial Flows for Adequate and Affordable Housing

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Contents

• Overview of housing in India
• Housing finance in India
• Issues of affordable housing
• Government initiatives
• Role of the private sector
• Case study: HDFC
Housing – The Pulse of the Economy

2nd largest employment generator

Backward/forward linkages – over 269 industries

Sector growing at over 30% p.a.

Estimated investment for meeting housing needs up to 2012: US $ 90 bn

Every INR 1 invested in housing adds INR 0.78 to GDP

Demographics and Housing

Total Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (in million)</th>
<th>Urban (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>439.2</td>
<td>78.9</td>
</tr>
<tr>
<td>1971</td>
<td>548.2</td>
<td>99.1</td>
</tr>
<tr>
<td>1981</td>
<td>683.3</td>
<td>173.2</td>
</tr>
<tr>
<td>1991</td>
<td>846.3</td>
<td>277.6</td>
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<tr>
<td>2001</td>
<td>1028.6</td>
<td>398.1</td>
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</tbody>
</table>

Housing Shortage

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Units (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>15.2</td>
</tr>
<tr>
<td>1971</td>
<td>17.6</td>
</tr>
<tr>
<td>1981</td>
<td>23.3</td>
</tr>
<tr>
<td>1991</td>
<td>22.9</td>
</tr>
<tr>
<td>2001</td>
<td>24.7</td>
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</table>

Projected Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (in million)</th>
<th>Urban (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>17.6</td>
<td>2.9</td>
</tr>
<tr>
<td>2025</td>
<td>24.7</td>
<td>3.6</td>
</tr>
</tbody>
</table>

36% urban population by 2025

Housing Amenities

- Drinking Water
- Sanitation
- Electricity

64% of the population has no toilet facilities

Census data
Housing Finance - Timeline

Pre 1970
- Centralised directed credit

1971
- HUDCO: public sector, wholesale lending

1977
- HDFC: 1st private sector retail housing finance institution

1988
- National Housing Bank - regulatory & supervisory body / refinancing agency

Late 1980's
- Public sector banks/insurance companies promote housing finance companies, also private sector enters

Late 1990's
- Schedule commercial banks get into direct lending for housing finance - changing the market scenario

Low Penetration Implies Room for Growth

Mortgage as a % of GDP

Improved Affordability

<table>
<thead>
<tr>
<th>Property Value (Rs Lac) &amp; Affordability</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
<tr>
<td>0.00</td>
</tr>
<tr>
<td>Property Cost (Lac)</td>
</tr>
</tbody>
</table>

1 Lac = 1,00,000

Property price estimates in suburban Mumbai

Affordability equals property prices by annual income

Market Features

- Loan Features
  - Mostly floating rate
  - Max. LTV = 85% (65% for HDFC)
  - Avg. Size: approx. USD 35,000
- Aggressive marketing and distribution
- Role of direct selling agents
- Cross-selling of products
- Growth in Tier II and Tier III cities
- Rapid growth in non-residential real estate sector, particularly in IT/ITES sectors
Sources of Funding for Housing Finance

- Housing finance accorded priority sector lending status
- Key funding sources:
  - Term loans from banks/financial institutions
  - Bond market
  - Retail/wholesale deposits
  - Loans from multilateral agencies
- Financial institutions are now disallowed from accessing the External Commercial Borrowing Market
- Need for long-term funding sources—insurance, provident and pension funds
- Securitisation market still at nascent stage

Issues in Affordable Housing

- Urban areas have created job opportunities, but not provided sufficient affordable housing, leading to proliferation of slums
- Artificial scarcity of land—legal constraints
  - Urban Land (Ceiling & Regulation) Act
  - Rent control
- High transaction costs—stamp duty, registration
- Lack of reliable data
- Slum rehabilitation programmes—politically sensitive

<table>
<thead>
<tr>
<th>Housing Costs</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Components</td>
<td></td>
</tr>
<tr>
<td>Land Cost</td>
<td>49</td>
</tr>
<tr>
<td>Labour Cost</td>
<td>5</td>
</tr>
<tr>
<td>Material Cost</td>
<td>28</td>
</tr>
<tr>
<td>Profits</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: McKinsey
Measures Needed for Low Cost Housing

• Developers must be provided with incentives to build low cost housing
  – Increasing FSI
  – Developer to resettle slum and in return can use the remaining land for commercial purposes
  – Fiscal incentives
• Rehabilitation and resettlement initiatives must have community development
• Financing issues
  – Need clear land titles
  – Mortgage insurance
  – Lack of data on credit history
  – Timely credit more important than subsidised credit

National Urban Housing & Habitat Policy 2007

• Core focus is “Affordable Housing For All”
• Assist the Economic Weaker Sections (EWS)/Low Income Groups (LIG)
  – EWS - household income: Up to US $ 83 per month
  – LIG - household income: < US$ 83 >183 per month
• Create adequate and affordable housing stock, both rental and ownership
• Create public private partnerships
• Encourage in-situ slum housing over resettlement
• Shift from subsidy based housing to proactive financial policies including micro finance and self help group programmes
**Mircofinance for Housing (MFH)**

- MFH is a subset of microfinance
- MFH differs from mortgage lending in two ways:
  - Loans are smaller and shorter-term
  - Not collateralised by property
- Offered by Microfinance Institutions (MFIs), cooperatives, banks, non-government organisations
- Banks and MFIs: increasing partnerships
  - MFI acts as agents – receives fees for sourcing, underwriting and collection
  - Loans are made by MFIs – banks provide line of credit, bank’s risk is on the MFI

**HDFC: Low Income Housing Initiatives**

- HDFC created a ‘Shelter Assistance Reserve’ wherein a portion of profits are transferred each year for participating and supporting social initiatives
- HDFC accessed low-cost funds from KfW to expand lending operations to economically weaker section (EWS) households.
- HDFC partners with grass-root level organisations
- Focus is on providing housing + income generating activity
- Disaster response: adopted a village in Maharashtra after an earthquake, partnered with KfW for relief and rehabilitation measures following the earthquake in Gujarat, financed reconstruction of houses in cyclone affected areas of Orissa.