

LOW COST URBAN HOUSING IN INDIA AND HABITAT FOR HUMANITY

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Abstract

This article aims to study the urban housing problem in India and provide a viable solution to overcome this. It tries to identify the main reasons for the inadequacy of low-cost housing units and why the government and private sector have failed to address this issue. The article analyses the business model of an NGO, “Habitat for Humanity India” to identify the different stakeholders and their roles and responsibilities. Based on the learning gained, the article tries to propose a scalable and sustainable model to alleviate this growing problem.

Introduction

Housing is an arduous problem across the world, especially in developing countries like India. Apart from being one of the three basic necessities of life, adequate housing helps to prevent diseases, injury and death, provides security, and increases household and national income. It has become a top priority of the government and the society at large to address this issue. This is particularly severe in cities because, by 2025, more than 50% of the population is expected to reside in urban settlements in search of stability and income. This would lead to a shortage of 25 Million housing units – 99% of it being in the Economically Weaker Section and the Low Income Housing space. Through this study we intend to find viable solutions to address this growing problem of low cost urban housing in India.

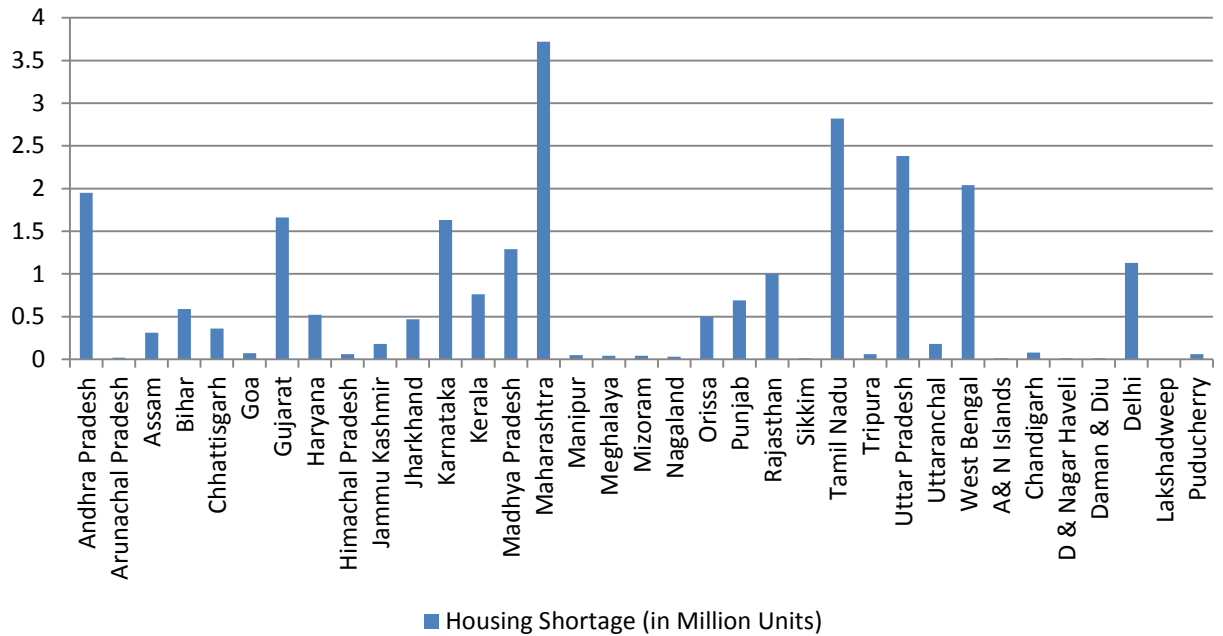
Housing Scenario in India

India is a populous country where approximately 70% of the people reside in rural areas. These people are migrating to urban settlements in search of jobs and better living standards.

Scale of the Problem

The exhibit 1 below shows the state-wise and category-wise housing shortage in India. It can be seen that 99% of the housing requirement is in the Economically Weaker Section (EWS) and the Low Income Housing (LIG) space ^[2].

Urban Housing Shortage (Total = 24.71 Million Units)



Housing Shortage across Categories (in Million Units)

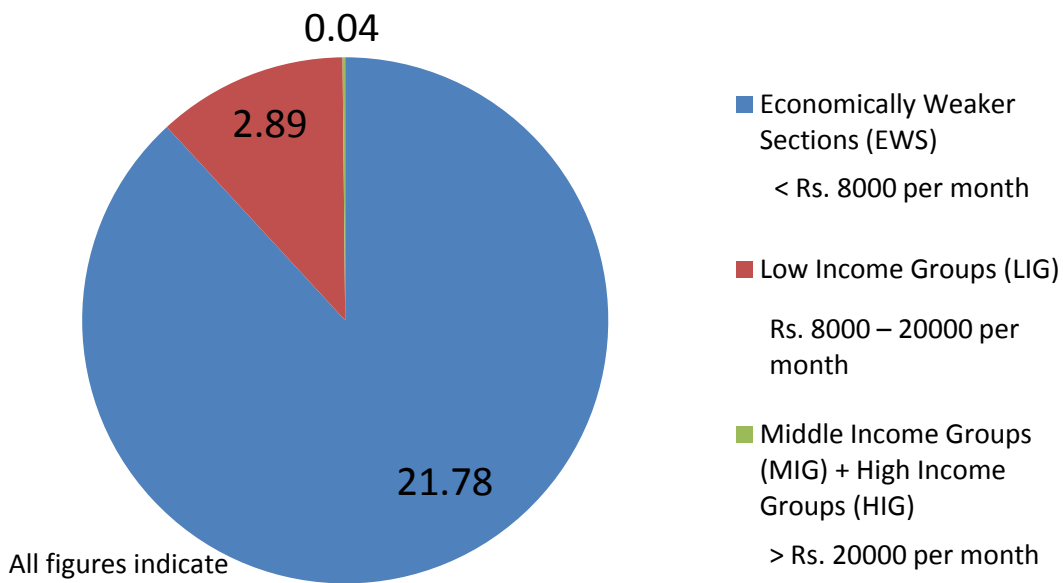


Exhibit 1: State-wise and category-wise housing shortages in India [3]

Financial Requirements for Affordable Housing

Based on an analysis of the money spent on the above mentioned initiatives every year, we arrived at the following:

Total Urban Housing Shortage (in Million Units)	24.71
Approx Cost per house (as per JNNURM estimates)	₹ 2,00,000.00
Total Financial Requirement (in Crores) --- 5% of GDP	₹ 4,94,200.00
Total NREGA Works Cost per year (in Crores) --- 0.6% of GDP	₹ 50,000.00
India GDP 2011-12 (in Crores)	₹ 82,32,652.00
Total JNNURM Spending since inception(in Crores)	₹ 28,287.24

Exhibit 2: Financial analysis of magnitude of urban housing problem in India

From Exhibit 2, it can be seen that even the most popular scheme of the government, the NREGA is allocated only 0.6% of the total GDP. The most well-known urban development programme has spent around 29,000 Crores since its inception. The above calculated housing requirements are only for urban areas which constitutes 28% of the population (in 2011). The urban population is expected to rise to 50% of population in the next two decades which will exacerbate the problem.

Causes for Inadequate Housing

The following causes of inadequate housing ^[1] in the India influence the quantity, quality and affordability of housing options available to the poor.

Social, Economic & Political Factors

- 1. Poverty and Economic Development:** Poverty & inadequate housing work are cyclical factors: those who lack adequate housing spend money and time on shelter rather than on other basic needs, further entrenching them in poverty.
- 2. Low household income levels:** In developed countries, land prices average four times the average annual income whereas in Asia, developed land is more than 10 times the average annual income.

- 3. Discrimination:** Women and minority groups face both *implicit* (higher poverty levels) and *explicit* (barriers to housing based on law and customs) discrimination in many housing markets.
- 4. War & Violence:** War and violence creates an exodus of people who are forced to live in temporary settlements without access to basic amenities. It also physically destroys housing infrastructure and stalls housing production, creating further shortages.

Housing Policy Environment

- 1. Decentralizing Authority:** The responsibilities are often shared between multiple agencies at multiple levels of government, with little coordination among them thereby leading to a lack of transparency.
- 2. Regulatory policies:** Stringent construction & urban expansion policies leading to increased housing costs, lengthy delays in allotting permits and complex land registration procedures are contributing to the ineffectiveness in addressing the housing problem.
- 3. Forced Eviction & Relocation policies:** Households from slums & illegal settlements are forcefully evicted and are consigned to less desirable locations which are far from places of work, education, recreation and healthcare.

Market Conditions & Housing Options

- 1. Land Shortages due to improper City Planning:** Increasing demand for and limited supply of urban land are leading to speculative land prices.
- 2. Lack of Financing:** Loans require the poor to possess sufficient identification, ownership of land and have inflexible payment schedules which do not address the financial requirements of the poor. *Microfinance loans* have a very short tenure and are mostly given out for revenue generations activities. *Household Savings* are non-existent and *Government* interest subsidies are insufficient.

Failure of Governments

The following are some of the reasons for governmental incompetence in providing housing for the poor ^[4]:

- **Standard Housing Projects:** The government fails to understand the needs of the intended beneficiaries and standard designs are not attractive.
- **Location of Housing Projects:** Projects are located in the outskirts of cities, away from places of work, education and healthcare.
- **Lack of Regulatory Mechanisms:** Many MIG and HIG applicants have benefited from the subsidized prices for housing properties meant for the EWS & LIG sections of the population, due to lack of regulations.
- **Lack of Co-ordination:** Multiple government agencies are working with little co-ordination among them for the development of housing projects leading to a bureaucratic and inefficient system for project tender and allocation.
- **Inefficient Land acquisition process:** Acquiring land in India is a hassle & the laws are not well defined when it comes to land acquisition and eviction. This is leading to lengthy delays in acquiring developmental permits.
- **Increasing Land prices:** The rapid increase in prices of land is leading to a nexus between the government officials, politicians and land mafias which makes it highly impossible and costly for the beneficiaries to get title to the land.
- **Lack of Supervision:** This is leading to significantly inferior quality of construction material being used by contractors resulting in poor quality of construction.

Failure of Private Sector

The private sector has also failed to perform as per expectations in the low-cost housing space. The following are some of the reasons for its failure:

- **Lack of Incentives:** The booming urban middle class on the demand side and increasing costs of land and construction material on the supply side have led to housing projects being priced very high, which are now unaffordable for the poor.
- **Stringent Construction Standards:** The maximum Floor Area Ratio (FAR) that can be developed on a given piece of land is very less compared to other developing countries. This leads to a reduction of housing units that can be built on the same land, which in turn is leading to high prices for developed units.

- **Long recovery cycles for Financiers:** The poor can spare a very little portion of their earnings on repayment, leading to a long recovery cycle for financiers who compensate for it by charging high interest rates.

All the above mentioned concerns have caused the clearing price for privately built homes to be much larger than what is affordable to EWS and LIG sections (See Exhibit 2) and have left the private sectors short of addressing the housing problem.

Current housing consumption under regulatory and supply constraints

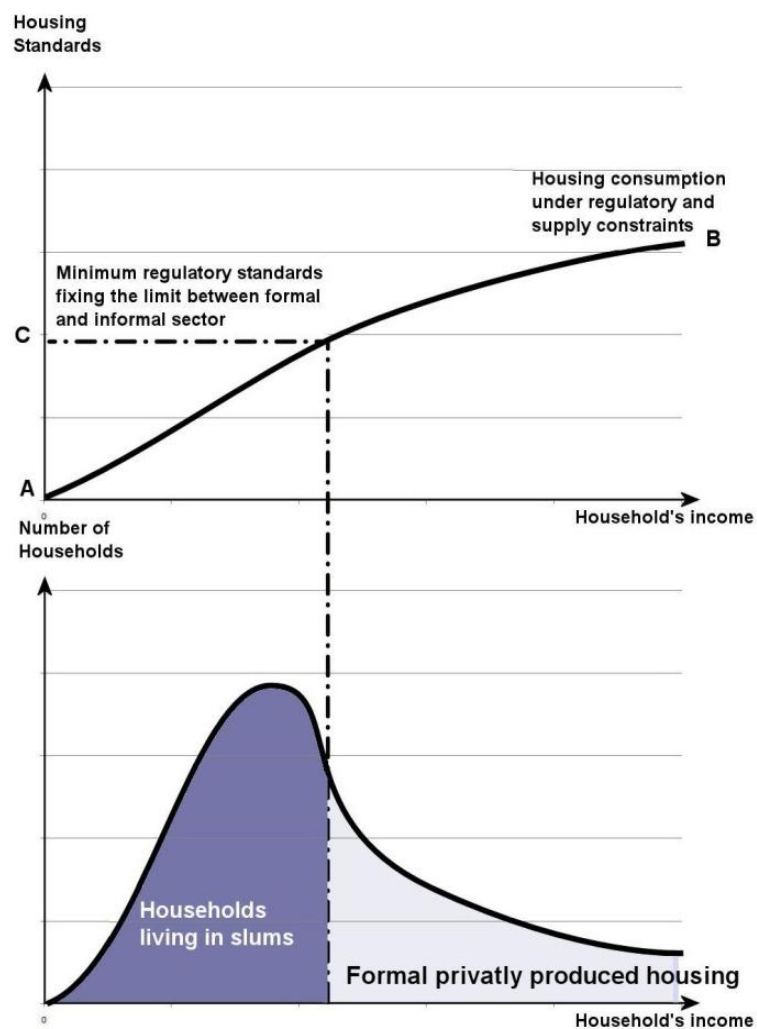


Exhibit 3: High clearing price for privately built homes ^[8]

Community Housing through NGOs

Given the inability of government and private sectors to cater to the housing needs of the urban poor, the most promising model seems to involve NGOs and Communities. There are many NGOs in India which have taken up the task of facilitating housing construction and financing for the poor like CHF India (Cooperative Housing Foundation), SPARC, Assist Foundation and Habitat For Humanity (HFH). We now take a detailed look at HFH.

HFH India

HFH India ^[6] was started in 1983 in Khammam in Andhra Pradesh. It currently has 4 offices, in Delhi, Mumbai, Chennai and Bangalore and has assisted in building around 40,000 homes across the country. Although it started its operations close to 30 years ago, it really got impetus post the Tsunami disaster. Around this time, there was an increased awareness and mindshare for homes and HFH got a lot of support and funds. HFH has built more than 20,000 homes in the last 7 years.

The Habitat Model

The Habitat model is drawn from the philosophy that it is **not a charity organization**. It provides **interest free loans** to the poor, who can not avail financing from the banks. These funds come from donors who could be individuals or corporate donors. These funds are then channelled to the deserving recipients through local NGOs. The beneficiaries are called **housing partners** to signify that they are an integral part of the project and have ownership. Habitat provides technical assistance and mobilizes volunteers to work alongside the housing partners.

The housing partners have to provide **sweat equity** to ensure that the recipient is really needy and not an affluent person posing as a homeless one. This brings about a sense of belonging and ownership and reduces the cost of unskilled labour.

The home measurements are generally 20 sq. m. to 33.5 sq. m. and costs between Rs. 1.5 lakh to Rs. 3 lakh. Out of this, Rs. 60,000 will be given by HFH, the government usually funds up to Rs. 60,000 more and the rest will have to be mobilized by the beneficiaries through savings or self-help groups. The loan can be repaid in up to 60 months, through the NGOs and with the help of some self-help groups. This **repayment** is then used to fund building of more homes so as to benefit a wider section of people.

HFH also helps in **home improvements**, where there is already a home but needs some capital to make it inhabitable (like plastering, roofing, etc.) and **incremental housing** where the beneficiary adds an additional room or a bathroom for an existing house.

The stakeholders

In this section, we will take a detailed look at the different stakeholders involved in the HFH model, their roles, the flow of resources and how HFH adds value in the process. The following diagram lists all the stakeholders and the flow of monetary and non-monetary aid between them, which will be explained in the next few sections:

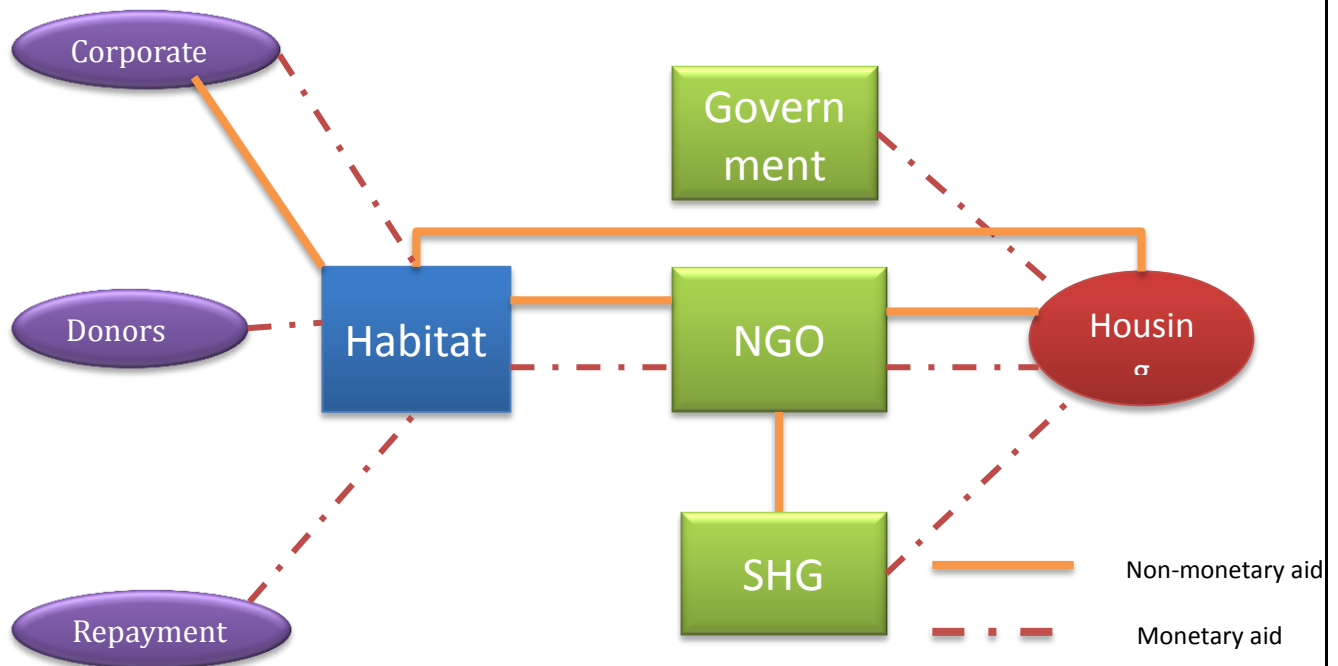


Exhibit 4: HFH stakeholders and flow of resources

Housing Partners or Beneficiaries

Their monthly income should be in the range of Rs. 4,500-6,000 (belonging to the Economically Weak Section) to ensure that they will be able to pay off their debt within the 5 year period. Also, they should have **possession of the land**. The government recognizes the long-time inhabitants of certain localities and gives them an official status that they have a secure tenure of the land for a specified period of time (say 30 years). This will enable them to build a house in that land and stay there, but they do not have the **title**, which is necessary to sell the land. This ensures that the beneficiaries are genuinely poor and in need.

How HFH adds value

HFH provides interest free loans up to Rs. 60,000 to the beneficiaries, which can be repaid in easy instalments of Rs. 1000 per month in 5 years. They also provide them technical support through an in-house engineer and help to reduce the cost of labour by providing volunteers, who can do unskilled work.

NGOs

NGOs are like an execution limb of HFH. They perform a variety of activities like identifying the right beneficiaries (HFH does due diligence), disbursement of funds and also monthly collection of repayments, cultivating Self-Help Groups (SHG) in every locality to ensure that the repayment is made on time.

These are generally organizations which have a strong presence in certain localities with in-depth knowledge of the inhabitants and problems. A lot of care is taken in choosing the right NGOs to partner with. The HFH team does a detail audit and evaluates them on different parameters and does periodic reviews.

How HFH adds value

HFH gives their partner NGOs about 3% - 5% of the funds to cover the **overhead expenses** which the NGOs incur in activities apart from housing as well. HFH also plays the role of a mentor and disseminates **best management practices**. Since HFH is an internationally renowned entity, it **helps the NGOs get credibility** and hence raise more funds from other sources, **reduce the resistance of the locals** and increase their acceptance and hence their reach.

Individual Donors

The donors come from all walks of life – from employees who contribute a percentage of their earnings as donations to high net worth individuals who are keen to work for social causes.

How HFH adds value

Given the model of HFH, the money lent by donors **need not be charity**. It can be **returned back** to them after a given period of time. Another advantage is that the utilization of the funds can be clearly seen as it **creates real assets**, unlike say donating to the cancer research foundation. The finances are **transparent** and due to their international standing and strong achievements, the donors don't have to worry about mismanagement of funds.

Corporate donors

Large Indian and multi-national companies have tied up with HFH as a part of their CSR activities. The most common way in which they contribute is through sending of **volunteers** and **matching donation policy** for every hour of employee volunteer work (Cisco). Some companies also **donate in kind** like Aditya Birla(cement) and certain electrical appliances companies. Some banks provide interest free capital to HFH, with HFH guaranteeing the payment of the principle as a part of their CSR activities.

How HFH adds value

The outdoor volunteering activity serves as a great team building activity. Companies send entire teams for a day's volunteering, where they can bond over construction activities which require them to work in groups.

Government

The government is only indirectly involved operations of HFH, in 2 ways:

1. Identifying the long-time inhabitants of the land and awarding them the possession documentation which guarantees a secure tenure. This helps the poor build a home without having to worry about it being demolished without any compensation.
2. Giving unsecured loans for this section of the society up to Rs. 1 lakh, which will reduce the amount of money HFH will have to lend, hence enabling them to increase their reach to more families.

The Big Picture: Solving Housing Problem

Based on our understanding, we believe that a collective system which incorporates the advantages of each entity is the most likely solution that comes closest to addressing the housing problem. The responsibilities of various entities are as given in the following figure (Exhibit 5) and described below:

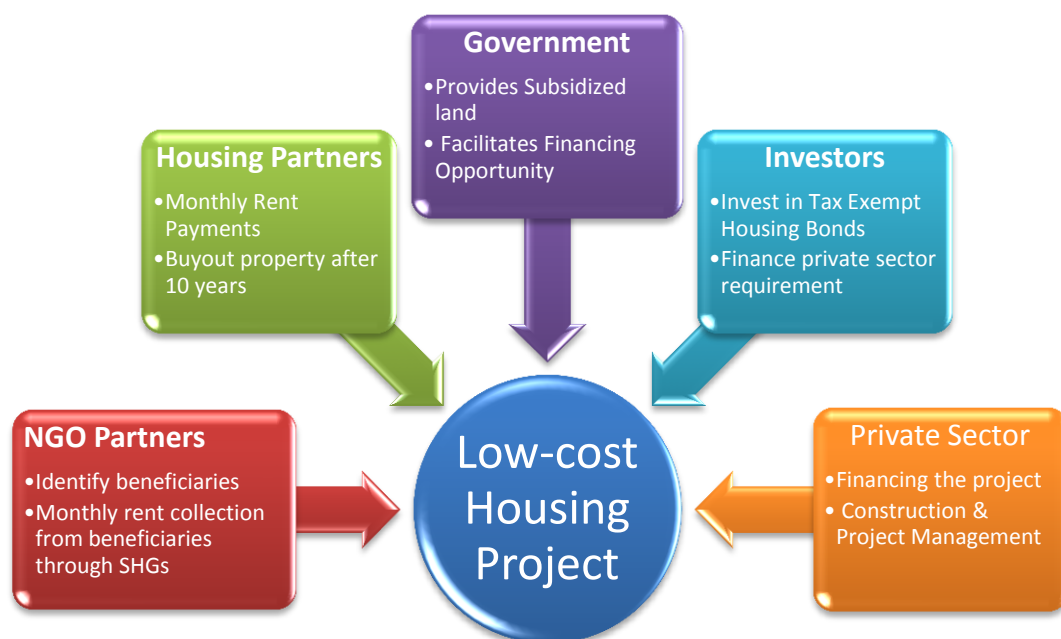


Exhibit 5: Stakeholders and their responsibilities in the proposed model

- **Government:** In order to cut out the inefficiencies of the government in the housing market, we suggest that the government only be involved in active city planning and making land available (subsidized) for housing projects. The responsibility of development of the projects should be handed over to the private sector under strict regulations to provide affordable housing on a fraction of the land.
- **Private Sector:** Having been provided land at subsidized prices, the private sector can bring in its experience in project management & construction to build good quality houses at the lowest costs. It should also finance the projects while recovering costs over a long period of time (approximately 10 years) based on monthly rent collections from the beneficiaries.
- **Partner NGOs:** The task of identification of beneficiaries should lie with the NGOs as they are closely involved in community development. They should also form Self-Help Groups to guarantee regular rent payments.
- **Investors:** The government can facilitate cheap loans to the private sector through “Housing Bonds” on the lines of “Infrastructure bonds”. Tax exemptions must be extended for investors in these bonds. The private sector can thus pass on its financial risk to the financial markets with sufficient regulation.
- **Housing Partners:** They must uphold their commitments of paying regular rents while also having an option to buy the property.

One notable feature of this solution is that these houses are not sold to the beneficiaries upfront. It is given out for a nominal rent for a period of 10 years. The rent that is collected goes to the private developer to pay back his loans on this project. Beneficiaries who live in these houses for such long periods can be given an option to continue to pay rent for perpetuity or buy out their house for a nominal sum. This option would also help the private developer if they want to get out of the project after 10 years.

Conclusion

The magnitude of the Housing problem in India is too large for any single entity to make an impact. The HFH model described above gives us a sustainable model which is a good starting point. Based on our understanding of the HFH model, we believe that a collective system which incorporates the advantages of each entity with clear cut roles and responsibilities for each entity is the most likely solution. Hence we conclude that it requires collective efforts and efficient co-ordination among these different entities in order to build a scalable and sustainable model that can attempt to address the burgeoning housing problem in India.

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