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Affordable housing: Policy and practice in India



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Available online 19 May 2015

KEYWORDS

Affordable housing;
Public policy;
Stakeholder participation;
State subsidies;
Low-income housing;
India

Abstract Affordable housing is a problem that many countries are taking stock of, world over. In India, the problem is much more stark with an estimated shortage of around 18 million houses, with 99% of this in the economically weaker sections of society. This paper sets out the definitions of affordable housing in India and across the world; the issues with the various definitions of affordable housing; the institutions and agencies responsible for formulating and implementing affordable housing policies in the state; the opportunities and challenges in affordable housing as well as a discussion on learnings from international experience in this sector.

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Introduction

Affordable housing is fast taking centre stage internationally as well as in the national agenda in India. With housing recognized as a basic need, governments at every level are discussing ways and means to provide access to housing for their citizenry. The importance of affordable housing is neatly captured in the following statement by the Affordable Housing Institute quoting Rakesh Mohan, Deputy

Governor of the RBI, in 2007 "...future national competitiveness and economic success will depend on the comparative efficiency of cities. Because housing is where jobs go to sleep at night, the quantity, quality, availability and affordability of housing becomes a key component in national economic competitiveness".²

The role and function of housing is multifaceted – housing choices impact access to infrastructure, employment, household wealth, health, education, poverty levels, maternal and child mortality, women's participation in workforce, and many other wellbeing indicators. As India

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¹ The views expressed by the author are personal and academic in nature.

Peer-review under responsibility of Indian Institute of Management Bangalore.

² "The growing crisis of affordable housing in MENA" (2012) available at <http://www.affordablehousinginstitute.org/wp-content/uploads/2012/10/The-Growing-Crisis-of-Affordable-Housing-in-the-MENA-by-EY-and-AHI.pdf>, p. 6.

seeks to improve its living conditions on a large scale, access to affordable housing becomes a major stumbling block for its citizens.

This article first examines the issue of affordable housing (AH) and sets the context for the panel discussion which follows on the state of the AH market in India and policy interventions required to improve it. The current note lays out the academic perspective on AH: first, by defining the term affordable housing; second, by describing the need for focus on AH; third, by analysing the institutional structure of AH delivery in India. The later part of this note analyses policy responses by various governments, international experience, and lacunae that still exist.

Defining affordable housing

Before framing an affordable housing policy, it is important to delineate the contours of this problem by defining the term “affordable housing”. Defining AH is also important to create targeted policies aimed at making financing more accessible, providing interest rate subsidies, or favourable terms on par with infrastructure financing.

Internationally, housing affordability is defined in multiple ways. One of the most commonly accepted definitions of affordability refers to housing affordability which is taken as a measure of expenditure on housing to income of the household. This is also accepted by the Indian Government, which states “Affordable housing refers to any housing that meets some form of affordability criterion, which could be income level of the family, size of the dwelling unit or affordability in terms of EMI size or ratio of house price to annual income” ([High Level Task Force on Affordable Housing for All, December 2008](#), p. 7).

The *Ministry of Housing and Urban Poverty Alleviation* (MoHUPA) in its 2011 report takes note of both income and size criteria to define the concept ([Table 1](#)). Multiple studies in the Indian context have also suggested other metrics of affordability.³

Housing affordability is a multi-faceted measure, and while affordability is commonly defined using the expenditure method, there are other perspectives to affordability as well, as discussed in the next sections.

Demand for affordable housing in India

The demand drivers for AH in India are several. First is the progressive urbanization, going hand in hand with a growing urban population, which increased from 109 million in 1971 to 377 million in 2011, and is projected to grow to 600 million by 2030. The consequence of the growing concentration of people in urban spaces is felt in land and housing shortages and congested transit, besides the stress on basic amenities such as water, power, and lung space. The Ministry of Housing estimated a housing shortage of 18.78 million houses during the 12th plan period, with 99 percent in the economically weaker and lower income groups.

Slums and informal tenements are estimated at 65 million as per Census 2011.

Second, alongside the growth of the urban population, rising incomes have led to the expansion of the middle class. This has led to a spike in demand for housing that is “affordable” but includes basic amenities.

Third, the real estate sector is a major component of the Indian economy. It is estimated that the real estate sector contributed to 6.3% of the GDP in 2013–14, at an estimated 3.7 lakh crores and employed about 7.6 million people ([CREDAI, 2013](#)) Housing is the largest component of the financial as well as the construction sector ([High Level Task Force on Affordable Housing for All, December 2008](#), p. 6). A thrust on AH will not only lead to better quality of life, but also significantly provide a boost to the GDP of the country.

Impact of affordable housing on households – international experience

Affordable housing provisions are important at the national level, the city level, as well as the individual level. Cities are engines of economic growth, and housing that can be afforded by the median wage-earner is a pre-requisite for the city to attract and retain the labour force required to ensure its economic success. From a national perspective, AH is one of the indicators of balanced growth in the country. When housing becomes unaffordable, there is either a bubble in the housing market with serious repercussions to economic policy, or other imbalances in the economy.

Affordable housing has multiple linkages to other aspects of the individual’s well-being. [Mueller and Tighe \(2007\)](#) consider evidence on the relationship between AH and benefits to the larger community in education and health. Similar to [Lubell, Crain, and Cohen \(2007\)](#), they find there is a positive externality to health due to AH provisions. Affordable housing has led to better access to health care, to education, and to perceived control and life-satisfaction ([Rohe & Stegman, 1994](#)). Affordable housing also serves to reduce crime ([Horner, 2009](#)), and has significant wealth effects on the residents due to employment stability ([Berry, 2003](#); [Rohe & Stewart, 1996](#)).

Institutional framework for affordable housing delivery in India

Public sector institutions and practice

In India, AH is a term largely used in the urban context. At the national level, the rural housing sector falls within the purview of the Ministry of Rural Development, while housing and human settlements in urban areas is the jurisdiction of the Ministry of Housing and Urban Poverty Alleviation. It is the latter ministry that has spearheaded AH as a concept and policy.

The policy framework for affordable housing is provided by the National Urban Housing & Habitat Policy (NUHHP-2007), along with the Jawaharlal Nehru National Urban Renewal Mission (JNNURM-2005), Basic Services for the Urban Poor (BSUP), Integrated Housing & Slum Development Programme (IHSDP) and the Rajiv Awas Yojana. The

³ Studies by Monitor Inclusive Markets (Deloitte), KPMG, JLL, Knight Frank, etc define affordable housing through multiple parameters.

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