



The provision of affordable housing in India: Are commercial developers interested?[☆]



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ABSTRACT

In many developing countries, insufficient provision of affordable housing for a fast growing urban population is leading to informal squatter settlements and slums. One way of improving housing for poor households is that commercial developers build simple and decent housing for sale at prices which many of those households could afford. This is called a 'market strategy' and the government of India (GoI) and the state government of Chhattisgarh (GoCG) have been trying to enable such a market for almost two decades now. However such a market has not yet arisen in Raipur, India. The indications are that many of the urban poor there could afford to buy their own dwelling if it was below a certain price. The question is: what is preventing commercial developers from building those dwellings? This is investigated by interviewing nearly half of the developers working in Raipur (30 firms). It was discovered that if certain constraints were to be lifted, developers would build such housing, commercially. The constraints related to credit, land availability, lengthy bureaucratic approvals for construction, among many other factors. According to the developers, the government could lift or ease those constraints which would enable the market to ease the massive housing shortage. This way of analysing constraints on the supply of affordable housing could be applied to other situations where there is a pressing need for such housing.

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1. Introduction

Affordable Housing (AH) is housing of a reasonable quality that is affordable to people on modest or low incomes. It includes various kinds of housing provision, each with its own eligibility criteria for meeting different needs, and collectively forms a housing continuum, as illustrated in Fig. 1. The figure has been adapted from Wake (2007) but the idea of a continuum is rather common in housing literature.

This article refers to the last section of the AH Continuum shown above, namely affordable housing sold by commercial developers, under market conditions and without subsidy, to poor households. The article is based on research carried out in the city of Raipur, in the state of Chhattisgarh, India. There, commercial builders were

asked why they were not supplying such housing.

The answer might seem to be obvious, namely: it is not financially feasible! Poor households cannot afford to pay the unsubsidised price of housing built to adequate standards, however simple. However, extensive literature (See Ghosh and Sanyal, Muttagi, P.K., Singh, U.B., Sachithanandan, A.N., Thangavel, C., Bhattacharya, K.P., for a collection of essays on Rent Affordability in 'Affordable Housing and Infrastructure in India' (1998); Also see Feedback Ventures (2006); Mahadevia, Joshi and Sharma (2009); Mascarenhas (2010); Mukherji and Bharucha (2011) and Singh (2011); for more recent data) on housing affordability among the urban poor, on slum and squatter settlements, on land and credit markets, on formal and informal economy reveals that the 'urban poor' is a broad category with varying capacities to afford housing. Slum dwellers are not a single homogeneous group; a considerable number have a regular source of income and seek permanent shelter with basic amenities that they are able and willing to pay for (Muttagi, 1998).

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The AH Continuum							
Transitional Housing	Assisted Self-Help Housing	Social Housing	Other Institutional Practices	Affordable Rental Housing	Affordable Home Ownership	Affordable Rental Housing	Affordable Home Ownership
Government Subsidized Housing				Non-Market Housing/Cooperative Housing		Market Housing	

Fig. 1. The AH continuum.

The GoI divides these poor households into two broad categories – Lower Income Groups (LIG) and the Economically Weaker Sections (EWS) households. EWS is defined¹ as a family earning less than Rs. 100,000 per annum (100,000 = 1 lac). LIG is a family earning Rs. 100,001 – Rs. 200,000 per annum. Monitor Deloitte, in its industry report on *State of the Low Income Housing Market in India* (Agarwal et al., 2013) claims: As per well accepted industry (housing and real estate) metrics, a typical household can afford a house up to forty times their monthly income. Using this metric, these poorer households (LIG/EWS) can afford to buy a house between Rs. 6–10 lac (USD 9090–15151) and Rs. 4–6 lac (USD 6060–9090) respectively (where 1USD = Rs. 66).

So the question is: for those prices, could commercial developers build simple housing which meets minimum standards of construction with 5 basic amenities of toilets, electricity, drainage, roads and water supply? If so, one might expect developers to build homes that are affordable to such households. But commercial developers in Raipur are not doing that.² The purpose of this research is to better understand the factors that are constraining the supply of such affordable housing.

2. Market enabling strategies

The launch of the Global Shelter Strategy by the United Nations General Assembly (A/RES/43/181) in 1988 introduced the enabling strategy into many national housing policies by providing guidelines for steps to be taken at the national level and by outlining the considerations for Governments when formulating a national shelter strategy.

Nearly three decades later, UN-Habitat is currently developing a Global Housing Strategy (GHS) for 2025. One of the main objectives for the strategy is decentralization of housing production to include a variety of housing solutions matching effective demands. This is because, despite significant efforts, the government is still the largest or the only provider of affordable housing in most developing countries. The need for decent housing for the urban poor in developing countries is enormous, and if the public sector itself was to try to meet that need (the left-hand side of the AH continuum, Fig. 1) the cost would be insupportable.

Indeed, the Government of India (GoI), over the years, has embarked on a variety of innovative housing programmes and policies, especially for the lower income segments of the population in urban areas. However the coverage of these programmes and schemes is marginal when compared to the overall housing

requirements of the urban population (Sivam & Karuppannan, 2002; Willis & Tiple, 1991). For that reason alone, it makes sense for the government to encourage market actors to meet some of that housing need. Such ‘market enabling strategies’ include removing constraints on commercial developers providing affordable housing. Based on this policy, the GoI came up with the *National Housing & Habitat Policy, 1998*. The objectives of the national housing policy were clear: it sought to establish the market as the dominant mode of housing provision, at least in the urban areas (MoHUPA, GoI, 1988; NHB, 1999).

Although the GoI could itself adopt neo-liberal policies at the national level, being in a federal structure, it could only recommend to the states that they privatise their housing markets. This is what the state government of Chhattisgarh (GoCG) did in 2000: it abolished the housing board and privatised the housing sector to encourage a free market. While those efforts did lead to a growth in the existing housing market, this was confined to the upper income segments, and did not result in a market for AH. In 2004, GoCG restored the public provision of AH, and Chhattisgarh Housing Board (CGHB) was re-created to “fill a vacuum” (CGHB, 2007), a term which aptly summarises the housing provision for the poor from 2002 to 2004, the trial period for privatisation of housing market.

The State Housing Policy of 2004 emphasized the need for commercial sector participation in AH by “strengthening the role of government as a facilitator” and “creating an enabling environment by undertaking legal and regulatory reforms” (Housing Policy of Chhattisgarh, 2004). GoCG undertook several of the mandated legal and regulatory reforms, such as revision of Rent Control and Land Acquisition acts, mandatory reservation of 15% land and 10% housing for LIG/EWS in every housing project, and creating a shelter fund to pay for either infrastructure development or land. CGHB also served as a guarantor to ensure credit supply for the EWS/LIG households buying dwellings in its own projects. To address issues of credit and housing finance, National Housing Board (NHB) and Housing and Urban Development Corporation (HUDCO) were set up at the national level. The state housing policy has not been revised since 2004; hence this is the current official stand of the state government.

In addition, and contrary to the principles of the enabling approach, public authorities in Chhattisgarh took on the role of state building enterprises. These state agencies provide subsidised housing for the EWS/LIG sector and allot it (rather than sell it in the market) to ensure that it is not bought by non EWS/LIG households. Operating on the principles of cross-subsidy, the EWS/LIG housing is subsidised from the profits on building Mid Income Group (MIG) units (which are sold with little or no profit) and High Income Group (HIG) apartments (which are sold at full market prices). In other respects, however, the state agencies mirror the practices of speculative developers (in terms of having a land bank, aggressive

¹ GoI notification [vide notification: D.O.No.I-14012/59/2005.H-II/FTS-1465] issued in November 2012.

² Only one among the 30 builders interviewed was building one housing project with homes ranging from 5.5 to 6.5 lacs for sale in 2012.

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