



भारतीय प्रबंध संस्थान बेंगलूर
INDIAN INSTITUTE OF MANAGEMENT
BANGALORE

Housing Market in India

Charan Singh

Reserve Bank of India Chair Professor

Lalit Kumar

General Manager, National Housing Bank

H A C Prasad

Senior Economic Adviser, MoF, GoI

December 2014

Introduction

- Housing- 269 industries; Impact - employment, GDP, consumption
- Housing finance (outstanding amount): India: Less than 8% of GDP, China: 12%, Malaysia: 29%, Spain: 46%, US: 80%
- India: Housing demand: Supply: Government: Regulators
- Financial sector reforms - 1985 and 1991
- Concerted efforts by Government and RBI - 2006
- Paper examines business practices in India

Review of Literature

- Housing related activities - 5%-10% of GDP
- OECD, 2005, Poterba, 1984 - Key determinants of housing prices: Y , i , taxes, demographics, speculation
- Bernanke and Gilchrist, 1999 and Kiyotaki and Moore, 1997 - House property: household's largest asset; price developments in housing markets can impact growth, mainly through credit channel
- Reinhart and Rogoff, 2008 - Most important causes of financial crises was collapse in prices of residential or commercial or both
- Allen and Carletti, 2011 - Main cause of recent wide-spread financial crisis bubble in real estate in the U.S. as also number of other countries such as Spain and Ireland

Review of Literature (Contd.)

- Hilbers et al, 2008 - Housing impacted by monetary, fiscal, macro prudential norms and labour policy
- Taylor, 2007 - Interest rates levels were much lower than in previous U.S. recessions relative to the economic indicators as captured by “Taylor rule”
- Ingves, 2007 - Riksbank - looks at property prices for monetary policy
- Warnock and Warnock, 2007 - Growth in housing finance depends on factors: Credit history of borrower, ability of financing institution to secure collateral, macroeconomic stability, trends in household income
- IMF, 2011 – House prices are important determinant of wealth and consumption. Housing price busts involve more serious implications than equity busts. Following Bianco and Occhino, 2011, IMF estimated that improved house prices could significantly strengthen consumption

India Status

- **Key institutions** Central and State governments, RBI, NHB
- **Government:** Role switch from a provider of housing units to a market facilitator.
- Housing an important part of five year Plans – focus – weaker sections
- **1954:** NBO; **1970:** HUDCO; **1988:** National Housing bank

- **Factors for increased demand from 1991:** Rising levels of income, urbanisation, younger earning age group, nuclearisation of families, availability of lendable funds with the banking system; Favorable tax regime, Flow of money through FDI and NRIs

- **Drivers for rise in credit to real estate:** Low interest rates, increase in property prices, relatively low inflation

- Currently, **indices** for housing prices developed by RBI and NHB
- Housing Start-Up Index (HSUI)

India Status (Contd.)

- Housing shortage: 18.8 million units in 2012, from 24.7 in 2007
 - mainly in urban areas, EWS and LIG - reflected in rising house price Indices
- Long term finance for housing sector catered by SCBs, financial institutions, coop. banks, RRBs, HFCs, NBFCs, MFIs, and SHGs. RBI regulates SCBs while NHB – HFCs
- RBI regulates LTV and risk weights and NHB follows
- Bulk of outstanding housing loans in 2013: between 10% and 12% of interest rates
- RML – 2007, RHF – 2008, RMLeA -2009, GF – 2011, 2012, Central Registry – 2011
- JNNURM – 2005, RAY – 2013

NHB Refinance Disbursements

- NHB refinance increased substantially from Rs.1,008 crore (crore is 10 million) in 2000-01 to Rs.5,632 crore in 2005-06 and to Rs.17, 542 crore in 2012-13
- Cumulative disbursement by NHB is Rs.86, 277 crore between 2006-07 and 2012-13 of which 52 percent is to SCBs and 46 percent to HFCs
- Sectoral view – outstanding housing loans of all institutions stood at 9 lakh crore in March 2014 as against 5 lakh crore in 2010 – significant growth
- NPA in housing sector is very low at 1.47 percent as against 5 percent for other sectors

NHB Refinance Disbursements (Contd.)

(Rs. crore)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
HFCs	1085	11889	7055	3544	3309	5302	7,694
SCBs	4250	7328	2447	4150	8112	8851	9,459
RRBs	0	0	202	185	134	143	389
RCBs	10	0	0	40	0	93	0
UCBs	30	70	150	189	168	0	0
Total	5375	19287	9854	8108	11723	14389	17,542

HFC- Housing Finance Companies; SCBs- Scheduled Commercial Banks; RRBs-Regional Rural Banks; RCBs/UCBs – Rural/Urban Co-operative Banks

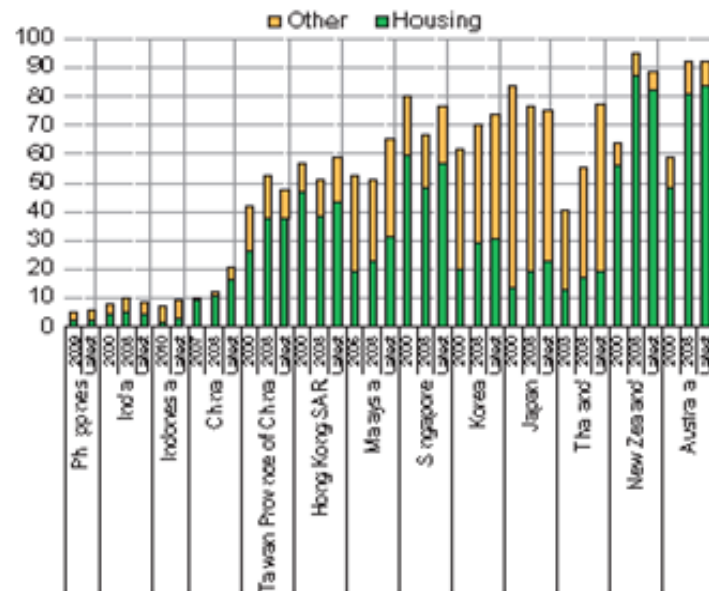
Housing Demand

- Low total household debt; mortgage lending has been growing fast and accounts for a significant share of the total
- House prices rose rapidly across most of Asian countries during last decade; Prices in Indian housing market increased enormously compared to other countries

Housing Demand (Contd.)

Asia: Household Debt

(In percent of GDP)



Sources: CEIC Data Company Ltd.; Haver Analytics; World Economic Outlook database; and IMF staff calculations.

Housing Prices

(Percentage change, real)



Sources: CEIC Data Company Ltd.; Haver Analytics; and IMF staff calculations.

Determinants of Housing Demand in India

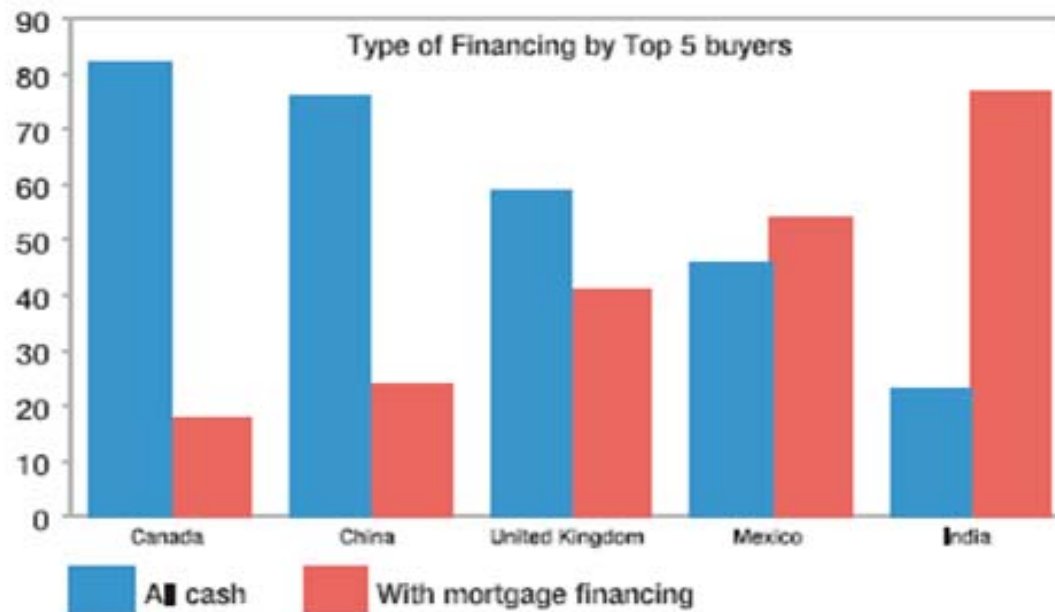
	Cities	NSDP	GSECs	Consumer Price Index
HPI	Ahmedabad	No	No	+
	Bangalore	No	+	Mixed
	Chennai	+	+	No
	Delhi	+	Mixed	No
	Jaipur	+	+	+
	Kanpur	+	No	Mixed
	Kochi	Mixed	Mixed	No
	Kolkata	+	Mixed	+
	Lucknow	+	+	Mixed
	Mumbai	Mixed	Mixed	No
RESIDEX	Bhopal	Mixed	+	No
	Faridabad	+	+	Mixed
	Hyderabad	+	Mixed	No
	Patna	+	+	No
	Pune	+	+	No
	Surat	+	Mixed	No

Financing of International Home Buyers in US

- Buyers from Canada, China, Mexico, India, UK accounted for half of the international sales in United States home sales market
- Buyers from Canada and China rely largely on cash financing, whereas buyers from India use mortgage financing

Financing of International Home Buyers in US (Contd.)

Top Foreign Buyers by Country and Type of Financing

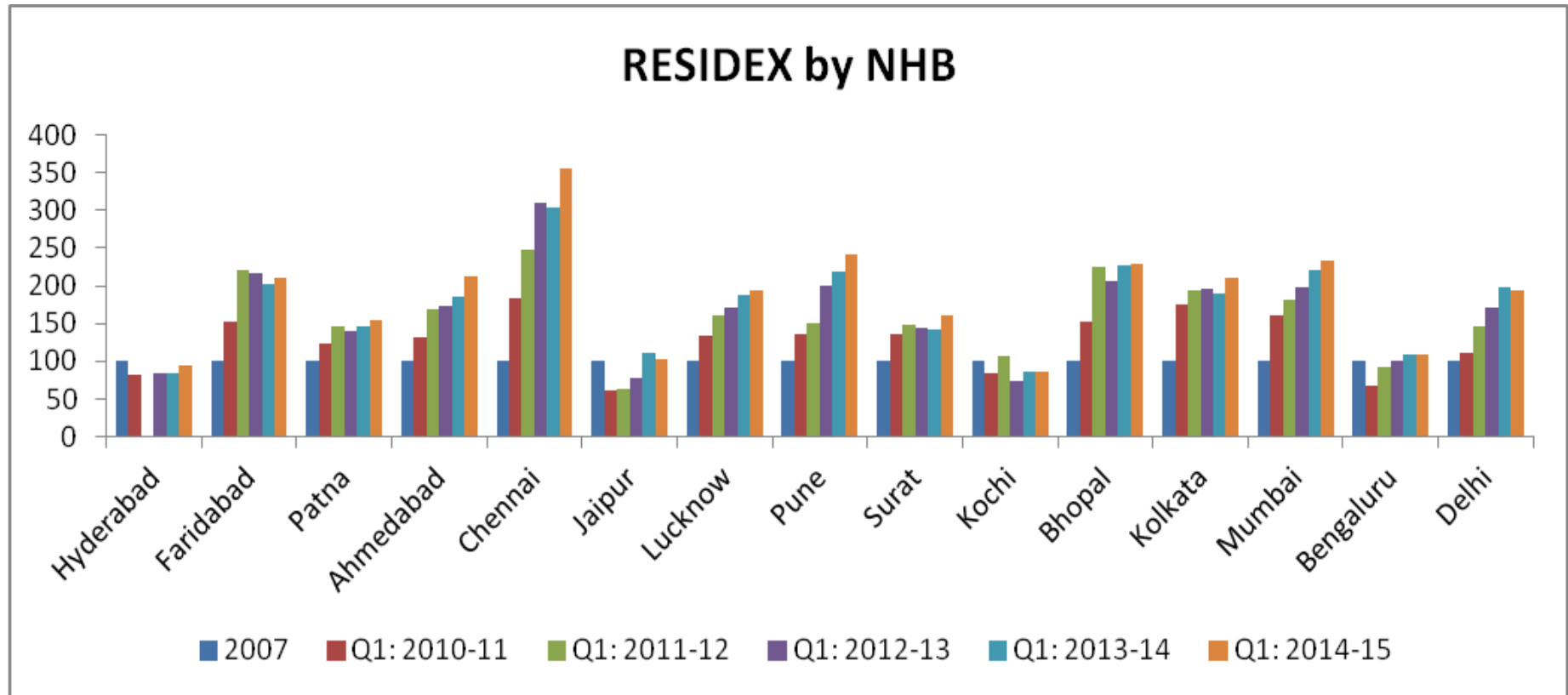


Source: National Association of Realtors

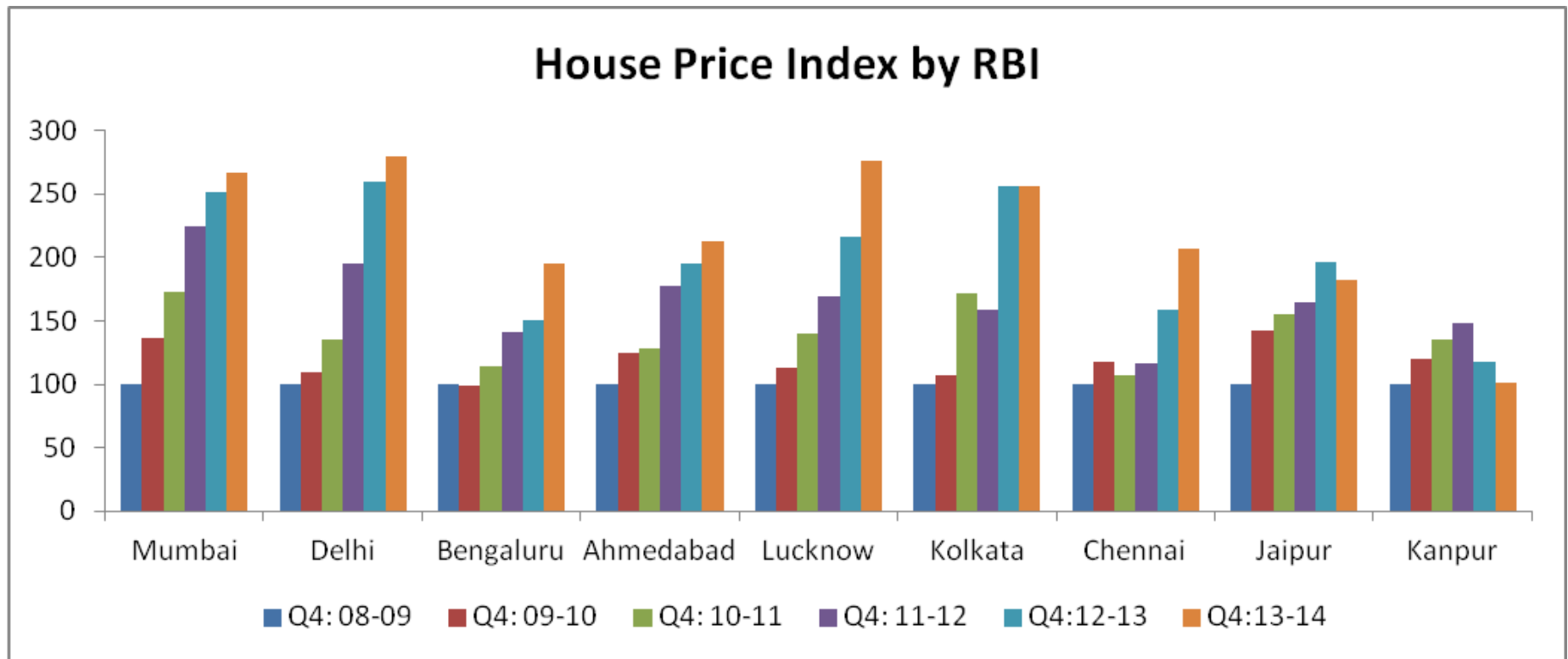
Shortage of Housing

- Total housing stock: About 249 million units in 2001, of which 29 percent: Urban areas and 71 percent: rural
- Shortage of housing is reflected in rising prices as reflected in the indices

Shortage of Housing (Contd.)



Shortage of Housing (Contd.)



Housing Indices

- RBI and NHB develop indices for housing prices
- Presently the index is being developed only for residential housing sector, which can be expanded at a later stage
- RBI's HPI is compiled using the official data on property transactions collected from registration authorities of the respective State Governments
- It uses a weighted average Laspeyres index methodology for compilation and stratification as an approach to control the property characteristics
- NHB's RESIDEX is based on data of housing prices being collected from real estate agents, housing finance companies and bank
- The proposal is to expand RESIDEX to 63 cities, which are covered under the JNNURM to make it a truly national index

Housing Indices (Contd.)

- Housing Starts considered as a leading indicator of economic activity, given its forward and backward linkages with other sectors of the economy
- Housing Start-Up Index (HSUI) measures the relative change in house start activity in a given period compared to a base period on a regular interval (quarterly)
- RBI will publish this index every three years based on the data collected by the National Buildings Organization and the National Sample Survey Office
- Government plans to extend the study to 300 cities, and develop the house start index for each of them

Incomplete Housing Market in India

- Big gap in the housing finance market
- Several players who are not regulated; housing developing in an ad hoc and unplanned manner across the country
- 62 per cent of newly constructed houses between 2007 and 2012 are unoccupied
- June 2013: Union Cabinet approved the Real Estate (Regulation and Development) Bill (RERD); RERD was mooted in 2009
- No available database being maintained on mortgages
- Bank and HFCs officials lack skills to effectively appraise and monitor home loan portfolio
- Lack of valuers for the housing property
- Lack of transparently available information

Incomplete Housing Market in India (Contd.)

- Issues with SARFAESI
- Price of houses to income (PTI) problem
- Lack of land records, and titling system
- Lack of appropriate land laws for acquisition for the purpose of housing
- No standardization of documents required for seeking bank finance; No regulator of housing
- Issue of land assembly
- Real estate and housing: Largely unregulated, opaque, and asymmetric information
- Property registration procedure issue (To streamline, some reforms underway, much more required)

Incomplete Housing Market in India (Contd.)

	Reduced Stamp Duty	Improved Land Record Computerization	Reduced Administrative Fees	Improved Administrative Efficiency
Ahmedabad, Gujarat	✓			
Bangalore, Karnataka*				
Bhubaneshwar, Orissa*	✓	✓	✓	
Chennai, Tamil Nadu*				
Gurgaon, Haryana				
Guwahati, Assam				
Hyderabad, Andhra Pradesh*				
Indore, Madhya Pradesh				
Jaipur, Rajasthan*		✓		✓
Kochi, Kerala				
Calcutta, West Bengal*				
Ludhiana, Punjab				
Mumbai, Maharashtra*				
New Delhi, Delhi*	✓	✓		
Noida, Uttar Pradesh	✓			
Patna, Bihar*		✓		
Ranchi, Jharkhand*		✓		

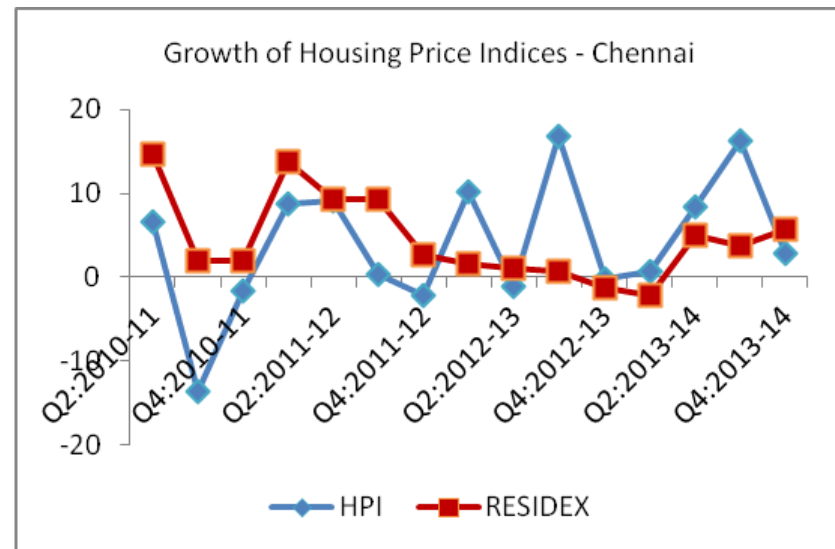
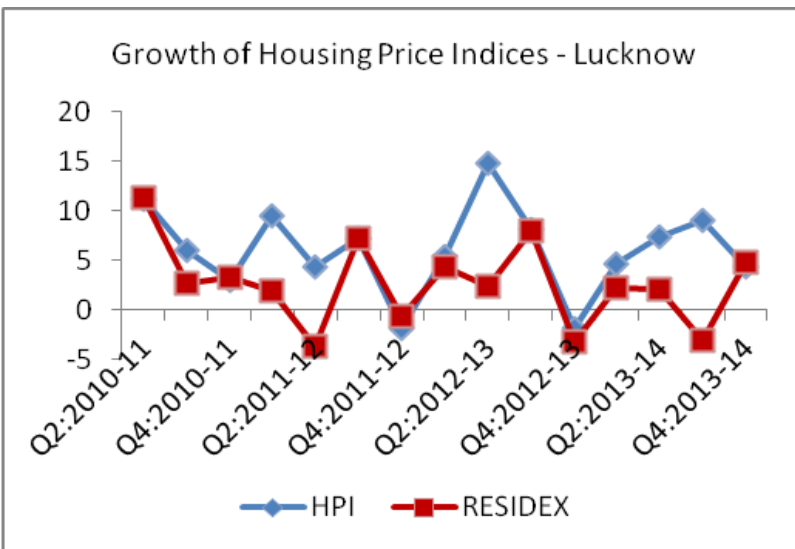
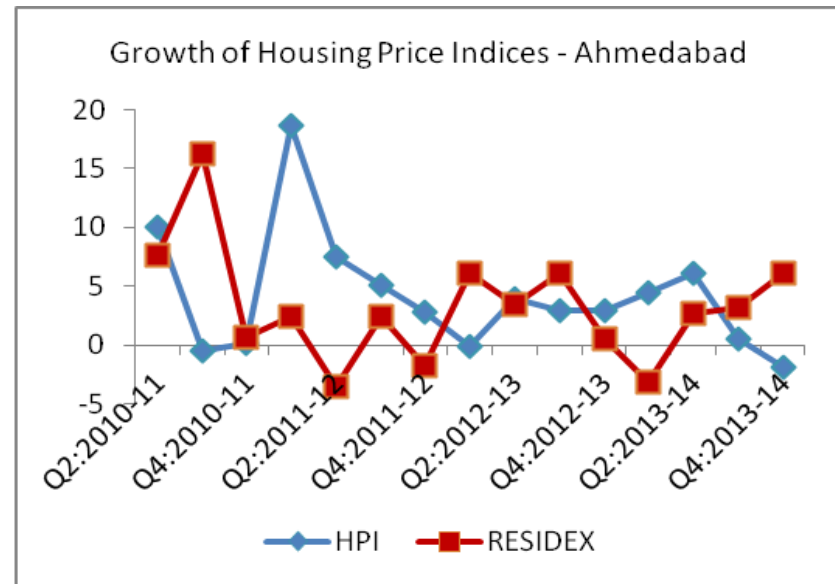
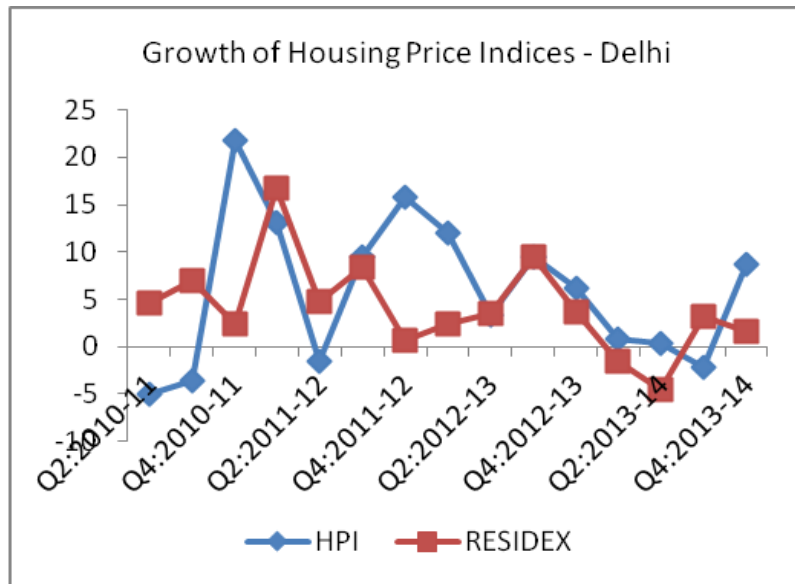
Sources: World Bank 2007a (locations marked with an asterisk), 2008a.

Note: These reforms took place between April 2006 and February 2009.

Contradictory Trend in Housing Prices

- Indices released by the two regulators sometimes indicate contradictory signals to the market
- RESIDEX - The data definitions are neither standardized and nor is the methodology
- The data is also collected by non-trained officials
- HPI - The methodology is somewhat standardized but also has gaps
- RBI's HPI is a weighted average of city-level HPIs
- Ideally, the number of transactions at city level could have been used as weight

Contradictory Trend in Housing Prices (Contd.)



Real Estate and Housing: Global Scenario

- The performance of global residential property markets in 2014 remains very uneven as per the Scotiabank's Global Real Estate Trends Report released on October 9, 2014. In many developed nations, including Canada, the U.S., the U.K. and Australia, real house prices are posting continuing and/or accelerating gains, supported by relatively healthy domestic demand and accommodative monetary policy. In others, including Spain, France, Italy and Japan, soft underlying economic and labour market conditions are reflected in continuing home price declines. Meanwhile, house prices have cooled across much of emerging Asia, but remain generally firm in Latin America.
- Property markets in emerging Asia have for the most part softened through mid-year. Overbuilding and weak sales have contributed to sharp slowing in China's housing market, with prices in most major cities only modestly above year-ago levels. Prices have stagnated in Indonesia and South Korea, and are declining in Russia and India, though for India it could rise from recent signs of economic revival.

- Today among the major developed countries, US Economy is one of the few countries showing a healthy pace of growth. However its housing sector continues to lag as it has not yet come out of the hangover of the bursting of the housing bubble.
- The bursting of the US housing bubble had resulted in reallocation of capital within the United States as well as between countries with knock-on effects for the world economy contributing to the global financial crisis and the resultant global slowdown. This resulted in bailouts by US govt to Fannie Mae and Freddie Mac.
- The boom in house prices was driven by historically low interest rates and a lack of perceived returns on stock markets following the bust of the stockmarket boom in 2000. Today again interest rate are low in EU and US and there is talk of bigger role for the entities like Fannie Mae and Freddie Mac.
- In US is the ghost of 2008 crisis returning is the question.
- The past and present situations are beautifully given in the following cartoons.



Source: The Link Between Systemic Risk and One-Size-Fits-All Regulation (June 20, 2013 by Dan Mitchell).



Source: Some Fannie-Freddie Political Humor for the Weekend (December 11, 2010 by Dan Mitchell)

Some recent Policy Measures

The Government-sponsored schemes and programs at national and state levels have given considerable boost to the housing infrastructure

General

ECBs To promote affordable housing, external commercial borrowing (ECB) are allowed for low cost affordable housing projects from 2012.

FDI -To encourage development of Smart Cities, which will also provide habitation for the neo-middle class, requirement of the built up area and capital conditions for FDI has been reduced from 50,000 square metres to 20,000 square metres and from US\$ 10 million to US\$ 5 million respectively with a three year post completion lock in. Projects which commit at least 30 per cent of the total project cost for low cost affordable housing will be exempted from minimum built up area and capitalisation requirements, with the condition of three year lock-in period.

- Policies to facilitate capital inflows in the housing sector through FDI and ECB route will improve both supply of funds as well as standards and qualities of lending and construction

- Rural Housing: The Rural Housing Scheme has benefited a large percentage of rural population who have availed credit through Rural Housing Fund (RHF). Accordingly, the Budget 2014-15 increased the allocations for the year 2014-15 to ` 8,000 crore for National Housing Bank (NHB) with a view to expand and continue to support Rural Housing in the country.
- Housing for All: Government's endeavor is to have housing for all by 2022. To reduce the burden for middle and lower middle class due to high cost of financing, the government extended additional tax incentives like increasing the deduction limit on account of interest on loan in respect of self occupied house property from ` 1.5 lakh to ` 2 lakh.

- REITs & InvITs: Infrastructure and construction sectors have a significant role in the economy. Real Estate Investment Trusts (REITS) have been successfully used as instruments for pooling of investment in several countries like US, Australia, Hong Kong, etc. With a view to attract large scale investment in these sectors, the recent budget has stated government's intention to provide necessary incentives for REITS which will have pass through for the purpose of taxation.
- As an innovation, a modified REITS type structure for infrastructure projects is also being announced as Infrastructure Investment Trusts (InvITs), which would have a similar tax efficient pass through status, for PPP and other infrastructure projects. These structures would reduce the pressure on the banking system while also making available fresh equity. These two instruments would attract long term finance from foreign and domestic sources including the NRIs.

- The Real Estate (Regulation and Development Bill): The Bill provides for a uniform regulatory environment, to protect consumer interests, help speedy adjudication of disputes and ensure orderly growth of the real estate sector and has been much awaited by all aspiring home buyers. It is a pioneering initiative to protect the interest of consumers, to promote fair play in real estate transactions and to ensure timely execution of projects.
- The Bill contains elaborate provisions to bring in the much needed transparency in real estate dealings through provisions for registration of real estate projects and real estate agents with the Real Estate Regulatory Authority; functions and duties of promoters and agents; rights and duties of allottees etc.
- The Bill once enacted will lead to establishment of Real Estate Regulatory Authority and Real Estate Appellate Tribunal in every State for registration of all real estate projects and for speedier dispute resolution. The bill was introduced in Rajya Sabha in August 2013 and later referred to a Standing Committee and is likely to come up in the parliament shortly.



Some recent Policy Measures- Social sector related

- The Rajiv Rinn Yojna: A Revised Interest Subsidy Scheme as an additional instrument for addressing the housing needs of the EWS/LIG segments in urban areas started from October 1, 2013. The Scheme envisages the provision of a fixed interest subsidy of 5% on interest charged on the admissible loan amount to EWS and LIG segments to enable them to buy or construct a new house or for carrying out addition (of a room / kitchen / toilet / bathroom) to the existing building.
- Jawaharlal Nehru National Urban Renewal Mission (JnNURM): JnNURM was launched on 3rd December 2005, of which housing component was implemented by MoHUPA. It has two sub-missions, Basic services for the Urban Poor (BSUP) implemented in larger towns and Integrated Housing & Slum Development Programme (IHSDP) implemented in smaller towns. 65 Mission cities were covered under BSUP and 910 other towns were covered under IHSDP. As on 16th Oct 2014, 1517 projects have been approved for construction of 14,38,275 houses at cost of ` 20,140.97 crore and ` 17639.64 crore has been released so far



- Rajiv Awas Yojana (RAY): RAY is a centrally sponsored scheme launched in Sept 2013 during 12th Five Year Plan for providing central assistance to States for housing, civic infrastructure and social amenities for slums. Two step implementation strategy is adopted i.e. preparation of Slum-free City Plans of Action (SFCPoAs) on 'whole city' basis and Detailed Project Reports (DPRs) on 'whole slum' basis for selected slums.
- In order to increase affordable housing stock, as part of the preventive strategy, Affordable Housing in Partnership (AHP) Scheme is also implemented as part of RAY. The scheme of Affordable Housing in Partnership aims to encourage private sector participation in creation of affordable housing stock recognising that mere efforts of Government would be insufficient to address the housing shortage. It was earlier introduced in 2009 as part of BSUP component of JNNURM and subsequently, Affordable Housing in Partnership was dovetailed with Rajiv Awas Yojana (RAY) in 2011. 212 projects in 22 states approved with 1,53,326 houses at project cost of ` 8,139.78 crores with central share of ` 4,470.41 crores. `1632.27 crore has been released so far. Construction of 1406 houses has been completed till date.
- Under AHP scheme, 18 projects are approved at project cost of ` 1192.25 crore with central share of ` 112.53 crore for construction of 20,472 houses. Construction of 4728 houses has been completed and 2042 have been occupied.

- Indira Awaas Yojana (IAY): The IAY introduced in June 1985 aims at providing dwelling units to houseless below poverty line (BPL) households identified by the gram sabhas and those living in dilapidated and kutchha houses, with a component for providing house sites to the landless poor as well.
- Under the IAY, a shelterless BPL family is given assistance of ` 70,000 in plains areas and ` 75,000 in hilly/difficult areas/Integrated Action Plan (IAP) districts for construction of a new house.
- For upgradation of kutchha or dilapidated houses, ` 15,000 is provided. For purchase of house sites, ` 20,000 is provided.
- The physical target for construction during 2013-14 is 24.81 lakh houses, of which 10.93 lakh have been constructed and 23.76 lakh houses are under construction.
- During 2013-14, a total of ` 13,894.90 crore was allocated for construction of 24.81 lakh houses and ` 12,970 crore was released.



तेजस्वि नावधीतमस्तु

- A Mission on Low Cost Affordable Housing : This was announced in the budget 2014-15 to be anchored in the National Housing Bank. Schemes will be evolved to incentivize the development of low cost affordable housing. A sum of ` 4,000 crores has also been allocated for NHB with a view to increase the flow of cheaper credit for affordable housing to the urban poor/EWS/LIG segment.
- Slum development and CSR: Slum development included in the list of Corporate Social Responsibility (CSR) activities to encourage the private sector to contribute more towards this activity. Slum re-development projects and housing for economically weaker sections (EWS) would be covered under CSR.

- CRGFTLIH (Credit Risk Guarantee Fund Trust for Low Income Housing) set up in 2012. The eligible institutions under this scheme are Scheduled Commercial, Regional Rural, Urban Co-operative Banks, NBFC-MFIs, Apex Cooperative Housing Finance Societies registered under the State Co-operative Societies Act, eligible under RBI guidelines as may be specified by the Trust from time to time. Housing Finance Companies registered with NHB and any other institution (s) as may be directed by the Govt. of India
- The Trust shall cover housing loans extended by eligible lending Institution(s) to a new eligible borrower in the low income housing sector in urban areas for housing loan not exceeding Rs 8 lakh on or after entering into an agreement with the Trust, without any collateral security and/or third party guarantees lock in period of two years. Guarantee cover of loans up to 90 percent up to Rs 2 lakhs and 85 percent between Rs 2 and 8 lakhs.

Conclusions and Policy Suggestions

- House price data series should have national coverage and differentiate between new and existing homes and between commercial and residential real estate
- Those series should be complemented by information on the stock and flows of housing, as well as on construction activity (including employment, price of inputs, and land prices)

Conclusions and Policy Suggestions (Contd.)

- It would also be helpful to have a monthly index, like that of the recently introduced Consumer price Index
- The housing data collected for the price index should be verified by survey undertaken by NSSO on regular basis, while the Census should help in verifying and cross-checking the data every ten years

Conclusions and Policy Suggestions (Contd.)

- Need for parity in housing market by having similar rules and regulations governing these players, and standardization of the products, including lease agreements that are being finally offered to the consumer
- Need to undertake in-depth research on housing for each state, assessing housing requirements in different regions, climate, socio-economic strata of society
- Rapid urbanization: state governments need to be active in urban and town planning
- Need to strengthen Housing related institutions.

Conclusions and Policy Suggestions (Contd.)

- Institutional credit: For housing investment, institutional credit is an important factor. Though it is growing at a CAGR of about 18-20 per cent per annum with mortgages as a percentage of GDP rising from 3.4 per cent in 2001 to 9 per cent in 2012-13, it is well below countries like China, Thailand, and Malaysia.
- Procedural delays : This is another major constraint in this sector. According to the World Bank's Doing Business 2015, India ranked 184th in terms of construction permits, requiring a total of 27 procedures to get permits as compared to an average of 14 in South Asia and 11.9 in OECD (Organisation for Economic Cooperation and Development) countries.

Table -1: Dealing with Construction Permits

	Rank	Procedures (number)	Time (days)	Cost (% of warehouse value)
Hong Kong	1	5	66	0.4
Singapore	2	10	26	0.3
Thailand	6	7	113	0.1
Vietnam	22	10	114	0.7
Malaysia	28	13	74	1.3
Sri Lanka	60	12	169	0.3
Pakistan	125	10	249.4	3.5
Bangladesh	144	13.4	269.2	2.1
China	179	22	244.3	7.6
India	184	27	185.9	28.2
OECD	..	11.9	149.5	1.7
South Asia	..	14	196.6	12.8

Source: Based on World Bank's Doing Business 2015

- These issues need to be addressed to make housing not only affordable but also easy to own.



- The new land acquisition law 2013 checks acquisition of land for industrial projects, PPPs and even for crucial sectors like defence and housing for poor and needs to be relooked. This could also hinder the implementation of the programme of “Smart Cities”. Amendment to the Land acquisition bill is in the agenda of the new Government.
- There are also restrictions on floor area ratio (FAR) in many states; and other restrictions like the application of bye laws/regulations and its exemptions e.g. increase in FAR which varies from project to project and is sometimes discriminatory. The Centre has recently enhanced floor area ratio (FAR) and ground coverage in Delhi, a move that is likely to facilitate more effective utilisation of space in the teeming metropolis. FAR enhancement means proportional increase in total built-up area, which will result in more spacious rooms or floors on the same plot, depending on the ground coverage.

- The Government provides tax incentives for owning houses but the procedures in the case of reinvestment of such property needs to be modified. For example if a person sells his house and re-invests the money, he will not be subject to capital gains tax only if he buys a house and not a plot with the money. Even buying two houses out of sale of single house is not permitted.
- Housing sector is one of the sectors where black money is invested. But unfortunately it has also become a sector where white money is converted to black money by even honest people as they have to pay in black to buy a house for which they may have to take a loan (not housing, but personal loan). Later when they have to sell it, they will not be able to show this portion as white and thus accumulate black money. Thus it is a double hit for a honest man who is made to appear to be dishonest. These issues need to be addressed.
- There are many schemes related to housing at the Centre and also state level. There is a need for convergence of many of these scheme and a zero budgeting approach.

Thank You!

Indian Institute of Management Bangalore
Bannerghatta Road, Bangalore – 560 076, INDIA

www.iimb.ernet.in

