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RESEARCH ARTICLE

AFFORDABLE HOUSING FOR URBAN MIDDLE-CLASS FAMILIES – A STUDY

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ABSTRACT

Home ownership is a part of our nation's socio-economic policy and remains one of the key priorities for the Government. The ground reality is that homes remain unaffordable for a large section of the urban middle class in large metro cities like Delhi, Mumbai, Chennai and Bengaluru. Developers on the other hand, claim that houses remain largely unaffordable in big cities due to high land prices coupled with high cost of input materials and labour costs. Data released by the Reserve Bank of India (RBI) recently, painted a grim picture, showing that affordability has worsened over the past four years, with Mumbai remaining the least affordable city when it comes to owning a house. Further, the RBI's asset price monitoring survey showed that the house price to income (HPTI) ratio an index of affordability rose from 56.1 in March 2015 to 61.5 in March 2019 across the country. In this context, the present paper attempts to portray the Central and State Government measures to boost demand for affordable housing among urban middle-class families. It also highlights the key elements which make houses unaffordable in big cities and the current trend of home buying.

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INTRODUCTION

Home buyers no longer fit into the familiar slots of people relocating, newly-weds flying out of their family nests, the wealthy buying farmhouses or retiring public officials moving out of government quarters. Due to exorbitant monthly rents and multiple restrictions imposed by the landlord, people tend to purchase their own home and transition from tenants to home-owners. Affordable housing is critical from point of supply. There has not been a major change in demand for affordable housing in the last 3-5 years. However, earlier there was no product as such for this market, and now developers have entered this segment and are providing Ready-to-move-in affordable units focused on urban areas. Self construction demand and supply is at normal pace. Financing opportunity in affordable segment is increasing since now demand is being met by increasing supply. A Home loan offers the perfect opportunity to purchase one's dream home, without putting a strain on his income or even his savings. According to experts, price of affordable housing should be decided on the basis of the income of middle-class families. From lenders point of view, EMI should not exceed 25 per cent of the homebuyer's salary. To ensure affordable homes come at this price, thorough research is needed where every aspect of the people of the city has to be taken into account. These include average spending on office commutes, household expenses, medical exigency expenses etc. Despite the five-fold increase in prices over a decade, homes are more affordable now. According to HDFC data, the average home buyer today requires just seven years of income to buy a house as against 10 years in 2000. Access to home finance is also a lot easier. Two decades ago, there were just two housing finance institutions - HDFC and ICICI Bank. In recent years, the entry of State Bank of India and many others has made it relatively easy to get a loan.

OBJECTIVES OF THE STUDY

- To study the Government initiatives which facilitate urban middle-class families to own their homes.
- To study the importance of financial prudence which largely help the Home loan borrower.
- To study the current trend of home buying.

SCOPE OF THE STUDY: Affordable housing is critical from point of supply. Earlier there was no product as such for this market, and now developers have entered this segment and are providing Ready-to-move-in affordable units focused on urban areas.

The study is based on secondary data sources such as Government portal, RBI Circulars, National Housing Bank site, Newspapers, HDFC Report and reviews of the publishers in journals, periodicals and internet publications.

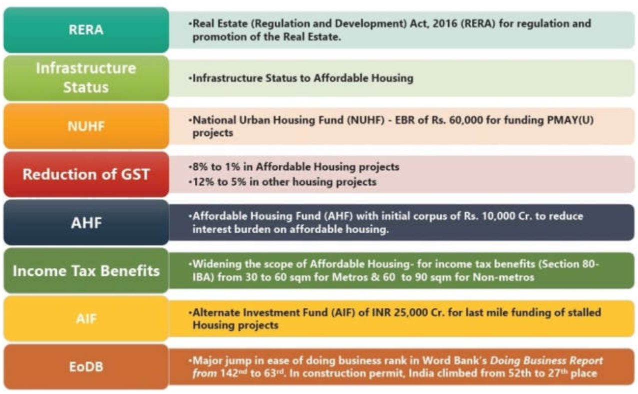
REVIEW OF LITERATURE

Deloitte (2019) in its September 2019 Report on “Affordable Housing Finance” rightly stated that some of the key parameters to define “affordable” housing finance may be ticket size, annual household income, and first-time house owner. Housing finance to first-time house owners that form part of the LIG and economically viable portion of the EWS segments, i.e., customers with annual household income of approximately Rs.2 to 6 lakhs and ticket size ranging from approximately Rs.5 to 18 lakhs may be considered as “affordable” housing finance.

National Council of Applied Economic Research (2014), in its April Report on Impact of Investments in the Housing Sector on GDP and Employment in the Indian Economy underscored that Affordable housing can accelerate economic growth through its linkage with the other sectors of the economy.

CRIF High Mark Credit Information Services Pvt Ltd (2021), in its Report on How India Lends observed that the affordable housing segment (with ticket size up to Rs.35 lakhs) constituted 90 per cent of the market by volume and nearly 60 per cent by value in 2021. The report further highlighted a steady increase in housing loan delinquency across borrower age groups. Default rates are lowest in the above 45-year age groups and highest in the less than 25-year age groups.

GOVERNMENT INITIATIVES TO PROMOTE ‘HOUSING FOR ALL’: The Government, RBI and National Housing Bank (NHB) play a pivotal role. These bodies are launching initiatives aimed to bridge the gap between the supply and demand to ensure the vision of delivering “Housing for All” by 2022.



Key Initiatives of Government Driving Progress

Pradhan Mantri Awas Yojana (PMAY)- Credit Linked Subsidy Scheme

- Provides institutional credit to EWS/LIG categories for purchase or construction of house.
- Interest subsidy of 6.5% on loan amount up to Rs.6 lakh for loan tenures up to 20 years. The Net Present Value (NPV) of the interest subsidy is to be calculated at a discount rate of 9%.
- The scope of Credit Linked Subsidy Scheme (CLSS) for EWS/LIG has been extended to MIG from 1st March 2017.

PMAY- Subsidy for Beneficiary-led Construction (BLC)-New or Enhancement

- Central assistance of Rs.1.5 lakhs for construction of houses or enhancement of existing houses available to individual eligible families belonging to EWS categories.
- BLC (new construction) incase existing structure is kuccha or semi pucca, BLC (enhancement) incase existing structure is pucca and enhancement of minimum 9 sq. m. and max area after enhancement <= 30 sq. m.

Set-up of Real Estate Regulatory Authority (RERA)

- RERA is expected to bring in transparency in the system and provide protection to end consumers. As a result, it will help to boost consumer confidence in this sector.

Relaxation on GST

- GST Council has reduced the GST on under construction homes from 5% to 1% on affordable housing.

Relaxation in Income Tax

- Home buyers are provided income tax benefits under sections 80(c) and 24(b) of the Income Tax for the principal (including stamp duty, etc.) and interest paid respectively.

PMAY – Affordable Housing in Partnership

- Multiple models aimed to combine strength of public and private players to boost supply.
- Central assistance @ Rs.1.5 lakh per EWS house would be available.
- A mix of houses for different categories will be eligible for central assistance only if at least 35% of houses in the project are for EWS and a single project has at least 250 EWS houses.

Long-term Rupee Denominated Bonds overseas by Indian Banks for financing infrastructure and affordable housing

- Banks can issue long-term bonds with a minimum maturity of seven years to raise resources for lending to

  (i) long term projects in infrastructure sub-sectors, and (ii) affordable housing.

Credit Risk Guarantee Fund Trust Scheme for LIG

- “Trust” covers housing loans extended by banks, HFCs, etc., to a new eligible borrower belonging to EWS/LIG category 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.

Setting up of "Affordable Housing Fund"

- Government has announced that it will establish a dedicated Affordable Housing Fund (AHF) in the NHB, which will be funded from priority sector lending shortfall and fully serviced bonds authorised by the government.

Income Tax Deductions in respect of Profits and Gains from Housing Projects

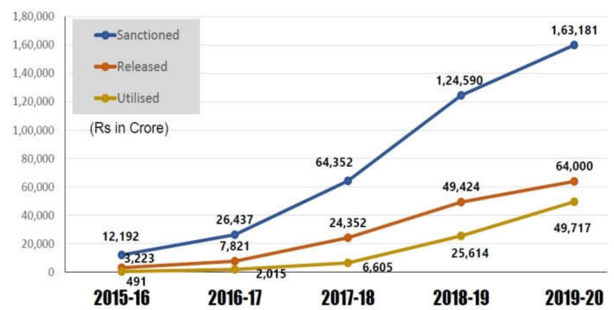
- Deduction of 100% of profits and gains derived from the business of developing and building housing projects, subject to the provisions of this section.
- Some of the conditions include: Plot size of land for the project should not be less than 1000 sq. m. in metro and 2000 sq. m. in non-metro cities, residential unit size should not exceed 30 sq. m. in Metro and 60 sq. m. in non-metro cities, etc.

Infrastructure status to Affordable Housing

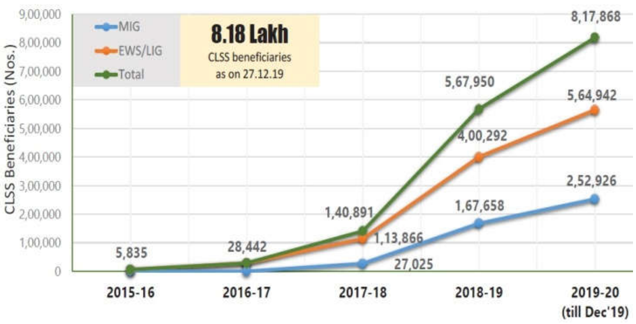
- Government announced granting of "Infrastructure" status to affordable housing, which will enable these projects to avail benefits such as lower borrowing rates, tax concessions, and increased flow of foreign capital.

Broadly, amongst the four income groups (EWS, LIG, MIG, and HIG, the large HFCs usually focus on the HIG segment, whereas the other HFCs (usually called "Micro/Rural Housing Finance Companies" or "AHFCs") cater to all or some of the EWS, LIG, and MIG segments.

Year-On-Year Central Assistance



Year-on-Year Progress under CLSS



Source: CLSS Awas Portal (CLAP)

IMPROVE PMAY –WAY FORWARD

Increasing the eligibility coverage for the Pradhan Mantry Awas Yojana (PMAY) and expediting the process are key to achieving the ambitious target of Housing for All by 2022. Suggested steps to make PMAY more effective:

- Extension of PMAY Credit Linked Subsidy Scheme (CLSS) for another two years from March 2022 till March 2024.
- Re-introduction of MIG-I/ II under PMAY-CLSS.
- Introducing another layer of annual household income range of Rs.18 lakh to Rs.24 lakh with a subsidy of Rs.2 lakhs.
- Easing up of CLSS norms like size and mandatory woman ownership.
- Allowing all urban and urban land areas under the scheme.
- Building an environment of access to funds by the Housing Finance Companies with greater reach to the masses in housing finance inclusion.
- Quick turnaround in smart city projects.
- Allowing greater incentives to lenders like low cost refinance on CLSS qualified portfolio and refund of higher processing fees from the National Housing Bank.

ADJUSTABLE-RATE MORTGAGE/ FIXED-RATE MORTGAGE

Interest rates are important to the housing market for several reasons. They determine how much one has to pay to borrow money to buy a property and they influence the value of real estate. Low interest rates tend to increase demand for property, driving up prices, while high interest rates generally do the opposite. The initial interest rate on an adjustable-rate mortgage (ARM) is set below the market rate on a comparable fixed-rate loan and then the rate rises (or possibly lowers) as time goes on. Generally speaking, an ARM makes more sense when interest rates are high and expected to fall. On the other hand, a fixed-rate mortgage charges a set rate of interest that does not change throughout the life of the loan. If one opts for predictable payments and interest rates are relatively stable or climbing, a fixed-rate mortgage might be the best option. Fixed-rate mortgages are easy to understand and vary little from lender to lender. The downside to fixed-rate mortgages is that when interest rates are high, qualifying for a loan is more difficult because the payments are less affordable. The main advantage of a fixed-rate loan is that the borrower is protected from sudden and potentially significant increases in monthly mortgage payments if interest rates rise. Usually, the interest charged is higher in the former than in the latter. For example, a permanently fixed rate loan may cost you 9 percent interest, whereas a loan with a rate that is reviewed every three years may come at 7.5 percent.

FINANCIAL PRUDENCE – EXPERT TIPS

Property purchase is one of the biggest financial decisions of one's life. So being financial prudent about it is absolutely necessary and if one takes cognizance of the following tips, he will be smartly managing his home loan.

- The different aspects of the loan such as principal amount, repayment tenure, EMIs and even interest rate can play a pivotal role in a home loan application.
- In the changed circumstances, lenders call for various evidences such as age, income proof, bank statements, credit history, CIBIL score and more to assess the loan eligibility. Income Tax Return (ITR) is a crucial document.

- If the borrower is a business owner, the lending institution will require audited financial statements before proceeding with his application.
- Lenders want you to bring at least 15-20% as down payment. If possible, increase this down payment (to more than 20%) so that your loan amount is reduced. Remember that bigger the down payment, smaller will be your EMI and therefore, lesser will be the stress on your monthly finances.
- But don't go overboard trying to make a bigger down payment. Do not take out money from your savings earmarked for other critical goals like retirement, children's education, etc.
- Lenders avoid giving loans which will result in total monthly EMIs exceeding 40% of the net take home pay. So your willingness to pay higher EMI may not find acceptance with lender's assessment of your ability to repay. So do not apply for a very large loan where EMI comes out to be more than 30-35% of your net monthly income.
- Final loan rate offered by lenders depends on several factors including your credit score (history). So check your score before applying for the loan. If it is not good, the rate of interest may be higher. In such case, it is better to take some time to repair your credit score and then apply for the loan.
- Even a small reduction in interest rate can save you lacs of rupees over the full loan tenure. So do your research and find lenders that offer lower rates. These days, some NBFC companies offer loans at rates lower than those offered by banks. So shop around for the loan.
- When you are repaying a home loan, at times your monthly finances might become stretched. So it is always advisable to keep 2-3 months worth of EMI saved up as backup. Such savings come in very handy in times of need.
- Interest on home loans can be used to offset income from housing property, which makes realty more attractive. Owners these days need not worry too much about losing their properties either.

CURRENT TREND OF HOME BUYING: Real estate has always been an investors' favorite asset class– domestic as well as international. It is the pandemic and the subsequent lockdown have disrupted the trend of purchase, rentals, and leasing of Indian real estate. As per a research report by CII-Anarock "Indian Real Estate Vision 2025, the softness in prices of real estate and falling currency lead by the Covid-19 pandemic has attracted a lot of investment from the NRI community". As soon as the borders opened after the first lockdown last year, there was a remarkable uptick in queries on buying real estate in India showcasing a large demand for spacious homes that ensure the holistic well-being of the occupants. The pandemic has played a significant role in changing the perception of home-ownership for all, especially for the NRIs who look to own a home in their native place. Several state governments have announced measures to boost demand. Realizing the high-demand, real estate developers have announced a slew of new projects. The resurgence of cases and the fact that the pandemic is here to stay for quite some time has made the NRI buyers cautious to make calculative decisions and opt for self-occupancy rather than renting out an apartment while traveling to their home country. This has been a key factor in driving sales and paved the way for buyers to return to the market.

CONCLUSION

Housing Finance was a flourishing business for the lenders and lucrative option for the borrowers, well guided and supported by the Government till 2018. Thereafter the Indian real estate sector experienced a significant slowdown owing to the Covid-19 crisis. Following a slow start at the beginning of the pandemic, the real estate sector was successful in deflecting the Covid-19 curveball, demonstrating noteworthy resilience and registering remarkable sales in 2021, which has set the tone for a promising revival in 2022. The rise in sales was aided by several State Governments slashing stamp duty and the interest rate on home loans falling to a nearly two-decade low level, ease in investment norms, depreciation in the Indian Rupee that have prompted people to invest in real estate leading to improved demand. Additionally, the work-from-home situation is seemingly becoming a way of life at least for another few months due to the lingering fear of the fourth wave. It is unlikely that the threat of the fourth wave will deter the intentions of the investors at large as people are vaccinated, extra cautious, and well-informed as far as fighting the adversities and planning their way around uncertain times. Having taken notes from the lockdowns in 2020 and 2021, the real estate industry has capably overcome challenges by employing strategies that attract buyers and investors. Given the enhanced importance put upon having a home during the pandemic and the increasing activity of home buyers, the consumer sentiment is projected to be high in 2022 providing the sector an overall positive outlook. Thousands of people who had postponed their decisions to buy a residential property are now having a change of mind. And this change of mind is due to stagnant property prices and low borrowing costs.

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