FINANCIAL EXPRESS

http://www.financialexpress.com/money/affordable-housing-in-india-how-homes-for-all-can-be-made-cheaper/863427/

# Affordable housing in India: How homes for all can be made cheaper

The scenario of slow sales of residential units brings our attention to the fact that housing in India is no longer affordable to its target audience.

By: Sanjeev Sinha | Published: September 20, 2017 5:34 PM

The housing cost is largely driven by the cost of land, development cost and the cost of approvals/government charges.

Continued to next page>>

With the surge in home financing options and growth of the corporate sector, the residential real estate has now become an end-user driven asset class. More and more young professionals want to set up nuclear families and buy their own home. This demand has augmented the price boom in the residential real estate market, giving super normal returns to investors and developers. However, the end-user can only pay the amount he can afford or how much he can leverage from the bank. The purchasing power of end users has not been growing as fast as the cost of owing a piece of property. The scenario of slow sales of residential units brings our attention to the fact that housing in India, which is the need of the growing middle class, is no longer affordable to its target audience.

Industry experts say that typically, there are three components to the cost of real estate – land and approval cost, construction and labour cost, and developer margin. “The construction cost is funded by banks at relatively lower interest rates such as 12% – 14% per annum or slab-by-slab payments made by the owner. Developer margin is usually a function of the amount of the investment made by the developer in land and taking the requisite approvals from the respective authorities for the land. There is limited margin to reduce construction cost as it is driven by prices of commodities such as steel and cement. Some efficiency can be built to reduce construction cost via effective project management techniques that can result in a marginal cost reduction,” says Nitesh Punjabi, GM-Capital Markets and Investment Services, Colliers International India.

Continued to next page>>

Large component of the cost of real estate stems from the cost of land and the cost of capital of holding land until approvals are received to start development of the project. The cost of capital invested towards land purchase is also upwards of 20%. Such high cost of capital is attributed to only the real estate sector as the financers and developers feel that the risk of procuring the land until to start of project is extremely high.

“Some of the things that can be done to reduce the risk of land acquisition is to digitise land records so there is limited risk in land procurement which can also be backed by title insurance. Also, time-based single window approval process will help reduce a lot of the carrying cost of land, uncertainty and risk. To a large extent the increasing ready reckoner rates for land also contribute in increase in value expectations of land owners, driving up the cost. The government has been giving additional FSI to developers so that the supply increases. However, that benefit is rarely being passed on to the consumers as the cost of the premium FSI is high and more FSI also increases the cost of development,” informs Punjabi.

The collections from premium FSI should be effectively used to improve road infrastructure, connectivity and transport systems so that more land opens up for development. So, the demand is spread out over a larger area and real supply comes into the market. The stamp duty and GST payments hit residential real estate buyers by an additional approx 18% in Maharashtra. Stamp duty is a direct additional cost and only a small portion of GST benefit is expected to be passed on to the buyers. The government should find a way to rationalise this cost.

Thus, “making real estate an industry by reducing title and approval risks, having a definite approval timeline and procedure, developing effective infrastructure to open up more land for development and rationalising taxes seem the way out to reduce the cost of housing. Labour and material cost will keep increasing slowly with the inflation, but the softer cost can be controlled,” says Punjabi.

Continued to next page>>

Some developers feel that the housing cost is largely driven by the cost of land, development cost and the cost of approvals/government charges. “With rapid pace of development & limited land supply for development in the urban area, land prices have substantially increased over a period of time. The land cost can be brought down by allowing development on the fringes and outside of the development plan areas where land is relatively cheaper. Development cost can be substantially rationalized by allowing large-size projects in such locations to achieve economies of scale. The government shall provide incentives to such developments by levying minimal approval charges to promote housing in smart cities,” says Pankaj Bansal, Director of the M3M Group.

Some other developers, however, say that instead of trying to make housing cheaper, the government should look at enhancing the purchasing power of individuals.

Anupam Varshney, Head-Sales and Marketing, Vatika Ltd, says that rather than looking at making housing cheaper (for which the government has taken various steps, like increasing the FSI etc.), “the government should also look at enhancing the purchasing power of individuals besides working towards their financial growth year on year as also working towards creating more job opportunities. The government should also look at providing finances to individuals at subsidized rates. Since the cost of house is a function of land cost, cost of raw material, cost of labour etc, there is not much that one can do over there.”