CHAPTER 4

Recent Trends in Promotion of Construction and Housing
Chapter 4

Recent Trends in Promotion of Construction and Housing

4.1.1 Introduction

The Multiplier Effect generated by providing impetus to Real Estate leads to 25% revenue generation directly for the state while creating direct employment and indirectly augmenting industrial and tertiary sector development. (Khan Prachuabmoh, 2006)¹

It was observed that some prominent and highly developed nations in the world have made use of real estate as a planned medium of driving economic policies. Conclusively, the real estate sector is a preferred option for governments to generate positive Gross Domestic Product figures in different economic situations. (Refer to global case studies of Chapter 3)

4.1.2 The Prevailing Indian Scenario in the market of Housing and Real Property (1998 - 2006)

India adopted the idea of planned and systematic development of its real estate industry in the wake of the Oil Pool Crisis of 1991 and the onset of liberalisation. Further impetus was provided by the UNO’s adoption (and India’s signatory status) of the “Global Shelter Strategy (GSS)” that called upon member nations to take steps for the formulation of National Housing Policy (NHP) to achieve the goals set in the GSS in the context of political, social, economic and cultural needs of the society.

The fundamental policy change, enunciated by GSS was the adoption of an ‘enabling’ approach whereby the full potential and resources of all actors in the shelter production and input process are mobilized. According to the GSS, adequate supply of land, public infrastructural services and building materials through the removal of bottlenecks and their supply were considered fundamental to the success of material shelter strategies.

Thus India came to adopt a new design hitherto untried throughout the Planning Era. The Government crystallised this new thought in the form of the National Housing and Habitat Policy, 1998.

¹ http://congress.housingfinance.org/Presentations/Simple/KhanPrachuabmoh-%20bw.pdf
4.2 Objectives of National Housing Policy

Most of the objectives of the Indian NHHP 1998 are based upon the USA's Housing and Urban Development Department plan to promote shelter for all. The NHHP aims at the following:

- Provision of assistance to all and particularly the homeless inadequately housed and vulnerable sections through access to developed land, building materials, financial and technical.

- Create an enabling environment for housing activity by eliminating constraints and by developing an efficient and equitable system for the delivery of housing units.

- Expand the provision of infrastructure facilities in rural and urban areas in order to improve the environment of human settlements, higher supply of developed land for housing

- Improve the housing situation of the poorest sections and vulnerable groups by direct initiative and financial support of the state.

- Mobilise resources and facilitate expansion of interest in housing.

- Promote a more equitable distribution of land and houses in urban and rural areas.

These objectives would be achieved by

- Public private participation in housing development.

- Housing norms would be evolved at local levels.

- To provide for distinct strategies for rural development

- Slum upgradation preferably through 'in-situ upgradation' and slum renovation.

- The policy has called upon the Centre and State Governments to simplify existing legal provisions and compensation to improve the supply of land.

- Expand infrastructure facilities.

- Stimulate interest in rental housing especially for the lower and middle-income groups and has recommended modification of the Model Rent Control Law.
• Promotion of easy access to housing finance for different housing activities.
• Promote low cost and environmentally appropriate technology and use of indigenous resources.
• Allotment of land to the Schedule Caste and Schedule Tribe segments.
• Provision of fiscal incentives, removal of legal constraints and development of Human Resources.

4.3 Housing in Five Year Plans

According to the “Report on Trend and Progress of Housing in India” June 1992 as compared to the problems of solving food and clothing, housing was accorded a very low priority. This resulted in an ever-increasing backlog of the housing stock.

Described below are the salient steps taken by ruling governments in the area of housing in the Plan Period of 1951-1992.

4.3.1 First Five-Year Plan (1951-56)

It recognised the problems of housing and state intervention in bridging the gap between availability and demand. It aimed at enhancing the housing stock of minimum standard. Alongwith the acknowledgement of the private sector’s participation in solving the housing problems, Housing Boards were instituted and funds from insurance companies were made available to finance project for private builders. For the systematic development of housing, the Town and Country Planning Act was modified and adopted.

4.3.2 Second Five-Year Plan (1956-61)

Schemes for subsidized industrial housing and for lower income groups were further strengthened. New schemes like plantation, labour housing, village housing, middle income group housing, slum clearance and improvement etc. were introduced. Specific schemes for

---

SC/ST/BC in rural areas were introduced. Housing programmes for state and central government employees was undertaken on a large scale.

In this period, the Central Government policy of granting direct loans to the lower income group category for house building was terminated and state government and local authorities were assigned the responsibility to assign sites, plots and extensions to the beneficiaries. Public financial institutions like the Life Insurance Corporation started providing funds for house building to lower income group and middle income groups and also to the state government for undertaking rental housing schemes for the then low paid employees.

4.3.3 Third Five-Year Plan (1961-66)

A review of the progress in rising housing stock in the first two plan periods was done in order to provide directions for the third and subsequent Five Year Plans. The salient issues addressed here were:

i. Linking of housing with economic development and dispersed industrialisation.

ii. Enlisting public, private and co-operative agencies to improve housing stock.

iii. Concerted efforts of public/private sectors towards creating housing for lower income group category communities.

This Plan initiated the framing of a housing policy in conjunction with successful implementation of land acquisition, development and urban land use.

4.3.4 Annual Plans (1966-69)

The concept of economically weaker sections housing was introduced. It was integrated with the subsidized and industrial housing schemes; other schemes introduced in previous Five Year Plans were continued.

4.3.5 Fourth Five-Year Plan (1969-74)

Growing urbanisation had resulted in the proliferation of slums. The World Bank recommendations to prevent congestion and providing access to the poor resulted in the government emphasizing on the creation of lower income group housing schemes. More emphasis was put on Economically Weaker Sections and low cost housing.
In this plan the Government accepted that the mere provision of a house is not likely to solve the whole problem. Thus housing alongwith basic amenities was important. Also to fulfil plan targets the cooperative and private sector was to be encouraged.

In this plan, a special public agency namely Housing and Urban Development Corporation (HUDCO) was established (1970) in order to finance housing activities. This body augmented support to various housing boards and co-operative housing societies throughout the country.

4.3.6 Fifth Five-Year Plan (1974-79)

The Fifth Five-Year Plan had ambitious housing targets to combat the acute shortage of housing. The clarion call given by the popular government of the time (Congress) was “Roti; Kapda; Makaan” (Food, Clothing, and Shelter). For the very first time the plan came up with physical targets were set wherein (i) house sites for 4 million landless labourers was proposed (ii) low-cost housing technology research received impetus (iii) preservation and input of existing housing stock (iv) financial assistance to state housing boards and local authorities to encourage low income group housing.

In addition the Minimum Needs Programme and the 20-Point Programme were introduced so that alongwith providing houses to slum dwellers also improving environmental conditions in urban slums was the focus.

The 5th Five-Year Plan was redrafted by changing the housing policy. The reformulated document emphasized the aspect of self-help housing, provision of house sites and assistance to rural landless labourers. It sought to increase the financial resources of institutional agencies so as to enable them to provide infrastructure facilities in such a manner as to encourage further investment by private sector and to promote research in building techniques including building material.

4.3.7 Sixth Five-Year Plan (1980-85)

The focus of the Sixth Five-Year Plan was to use the public sector resources in such a way that these yield optimum results and provide maximum possible houses to absolutely shelter less people. Among the rest of the plans to improve housing in the previous plans, the distinct emphasis lay in providing sanitation, housing extensions and layout planning for landless
labourers.

Society housing was re-categorized mostly on the basis of income criteria. Other schemes were launched during this time; prominent among them were (i) Rental-housing schemes for State Government employees. (ii) Housing sites cum construction assistance schemes for rural landless labourers. Under the Minimum Needs Programmes, 10-million dwellings for slum population were proposed by 1985 as against 6.8 million of 1980.

4.3.8 Seventh Five-Year Plan (1985-90)

At the beginning of the Plan, the housing crisis was apparent – 24.7 million units. Besides this backlog the increase in population generated an additional requirement of 16.2 million housing units. The government needed badly to provide adequate financial infrastructure. The need for a distinct and diversified institutional structure for housing finance and construction to cater to the need of housing development. HUDCO was strengthened and new institutions like housing co-operative building societies and a creation of an apex housing financial institution.

In addition to the above, the government decided to (i) encourage self-help housing (ii) identification of housing sites for rural families. (iii) Support private housing of middle-income groups and lower income groups. (iv) impetus to low cost housing (v) harnessing science and technology to improve building techniques. (vi) secondary mortgage market was strengthened with the creation of an apex level institution – NHB.

The main task of National Housing Bank was to help mobilize resources for housing sector. The NHB was to serve, as a refinance institution while funds for housing would be drawn from towns and cities across the country.

It was proposed that housing authorities and housing boards should concentrate on land acquisition and development in urban areas.

The thrust of the Seventh Five-Year Plan with regard to housing was “Social Housing Programme” in urban areas and rural housing programme for landless labourers and artisans under Minimum Needs Programme. The contribution to economically weaker sections housing was significant. The successful creation of 2.3 lakh dwelling units and upgradation of houses was the chief highlight.
New Initiatives: In this Plan, the Urban Basic Services Schemes (UBSP) alongwith UNICEF assistance were introduced. Emphasis on community participation, mother and child health, education etc. was important.

Also Housing Finance became broad-based with the setting up of specialized housing finance institutions (SBI Home Finance, Griha Finance Ltd., Can Fin Homes, PNB Housing Finance Ltd., LIC Griha Finance etc.)

During this time the Global Shelter Strategy of 1988, called upon member governments to formulate a National Housing Policy (NHP) to achieve the goals of a global shelter strategy.

4.3.9 Eighth Five-Year Plan (1991-96)

The draft of NHP laid down guidelines for a new approach for shelter provision. Hitherto missing thrusts were advocated, few being mentioned here (i) Provision of basic infrastructure facilities (Jawahar Gram Sadak Yojana, Jawahar Samagra Rojgar Yojana etc) (ii) Removal of legal constraints to increase supply of serviced lands and rental housing, (iii) Self-help housing for poorer groups (iv) setting up an MIS on urban and rural housing.

A significant aspect with respect to 8th Five Year Plan was the clarity of purpose it received due to the NHP. It formed a sub-set of a Long Term policy. Accordingly the State’s role was slated to be restricted to (i) increasing the availability of residential land for housing. (ii) support incremental self-building with financial and technical support. (iii) development of housing for lower income group (iv) promotion of appropriate technology.

4.3.10 Ninth Five-Year Plan (1997-2002)

Urban Development, Housing and Poverty Alleviation

In view of the fast pace of urbanisation and the growing gap between demand and supply of the basic infrastructure facilities accompanied by environmental degradation affecting the quality of life of urban population, an integrated urban management policy incorporating different facets like development planning, resource mobilization, capacity building, responsive administration etc. was ready for implementation.
The annual growth of urban population over the last four decades has been about 7 to 8 million people. The level of urbanization increased from 17.3% in 1951 to 25.7% in 1991.

Urban poverty continued to remain an area of significant and persistent neglect in public policy and was a manifestation of the lack of income and purchasing power attributable to lack of productive employment, high rate of inflation, lack of access to social infrastructure, affecting the quality of life of the people. The 1993-94 official estimate of the total urban population 'below poverty line' was 32.36%.

Two centrally Sponsored Schemes, viz., Integrated Development of Small and Medium Towns (IDMST) and Megacity were launched to upgrade and develop infrastructural facilities. It was decided that urban transport development, a crucial component of urban infrastructure needed to be accorded a higher priority.

Housing especially of the weaker sections of the society was fit for state intervention. The National Building Organisation estimated the urban housing shortage at 8.23 million in 1991 and projected to decline to 7.57 millions in 1997 and 6.64 millions in 2001. Another estimate (Habitat-II) indicated that the urban housing shortage would increase to 9.4 million. Apart from cooperatives and private sector, the public sectors needed to promote the housing activities. The Planning Commission suggested modification of the Housing policy to incorporate affordable housing programme for the below-poverty-line category.

Another effect of the absence of structured housing schemes for the urban poor has been the rapid growth of slums causing tremendous pressure on urban basic services and infrastructure. Recognising the need for greater attention in this area of concern, the National Slum Development Programme (NSDP) was launched during 1996.

4.3.11 Tenth Five-Year Plan (2002-2007)

In the Tenth Five Year Plan, it was acknowledged that construction activity is an integral part of a country’s infrastructure and industrial development. It includes hospitals, schools, townships, offices, houses and other buildings; urban infrastructure (including water supply, sewerage, drainage); highways, roads, ports, railways, airports; power systems; irrigation and agriculture systems; tele-communications etc. Construction is one of the basic inputs essential for socio-economic development. The government came to realise the immense employment potential and its ability to provide a growth impetus to other sectors through backward and forward linkages.
Thus a view was taken that; this vital activity needed to be systematically nurtured for the healthy growth of the economy. The emphasis was now on creating physical infrastructure, and an investment is planned during the Tenth Plan to the extent of Rs 200 billion over the Plan period.

The construction sector is one of the largest employers in the country. In 1999-2000, it employed 17.62 million workers, a rise of 6 million over 1993-94. The sector also recorded the highest growth rate in generation of jobs in the last two decades, doubling its share in total employment.

The main advantages of the construction sector in employment generation are (i) it absorbs rural labour and unskilled workers (in addition to semi-skilled and some skilled categories); (ii) it provides opportunity for seasonal employment thereby supplementing workers’ income from farming; and (iii) it permits large-scale participation of women workers.

### 4.4 Share of Construction Sector in Gross Domestic Product (GDP) and Gross Capital Formation (GCF)

The share of construction sector in gross domestic product (GDP), which was 5.4 per cent in 1970-71, came down to 4.4 per cent in 1990-91. Subsequently it picked up and stood at 5.1 per cent in 1999-2000.

The share of the construction sector in total gross fixed capital formation (GCF) came down from 60 per cent in 1970-71 to 34 per cent in 1990-91. Thereafter, it increased to 48 per cent in 1993-94 and stood at 44 per cent in 1999-2000.

The main reason for this was reduced Government spending on physical infrastructure in the last decade due to the fiscal constraints. The Government decided to provide substantial fiscal stimuli by way of programmes like the National Highways Development Project (NHDP), Pradhan Mantri Gram Sadak Yojana (PMGSY), and power projects etc., which were to

---

provide necessary impetus to the construction sector. This was done on a Build – Operate – Transfer basis with public – private participation.

Considering the significance of the construction sector, it was deemed necessary to identify the major issues affecting the efficiency of the sector and take corrective action.

4.5 Need to Reduce Cost of Construction

The high cost of operation has been identified as one of the major problems that not only affects the construction industry directly but also the overall economy indirectly, as high input and process costs are reflected in high cost of infrastructure, which, in turn, translates into higher user charges. This also reduces the surplus that can be ploughed back into construction technology upgradation and labour welfare. This could be done by a) improving the procurement and dispute resolution mechanism and measures for instituting more competition and transparency among contractors b) introducing harmonized bidding conditions and standard bidding documents for domestic construction contracts developed and circulated to all Government agencies and public sector organisations as guidelines c) need for an appropriate dispute resolution mechanism in the construction sector. A substantial amount of money is locked up due to disputes between contractors and clients, leading to cost and time overruns.

4.6 Flow of Institutional Credit

The Plan brought out the anomaly between the high resource requirements of the construction industry and the availability of finance. Moreover the very high cost of raising finance also translates into high costs, having a cascading effect on the economy. Therefore it was necessary to install appropriate measures and instruments to reduce financing costs and ease the flow of funds to the industry.

4.7 Construction Project Exports- Scope abroad

The Indian construction industry has been very active in the overseas markets, especially in the Gulf during the 1970s onwards following the oil boom. Between 1975 and 1980, Indian companies handled construction work amounting to nearly US $5 billion. But this trend did not last and by the late 1980s, the volume of contracts secured fell sharply. In 1996-97, the value of project exports was Rs. 338 crore (US$ 95.2 million), which increased to Rs. 1,500...
Action in streamlining the functioning of the construction sector was deemed important to get a larger share of the global business. Such action would include formulation of business-friendly policies, development of insurance instruments to mitigate the business risks and adoption of aggressive marketing of the Indian construction industry abroad.

4.8 The recent changes in the field of real estate

The Ninth and Tenth Five Year Plan can be considered watershed years in the development of a dynamic real estate development policy. The Ninth Year Plan coincided with the formation of the National Housing and Habitat Policy 1998, based on the Global Shelter Strategy 1988 that looked at the development of housing and commercial real estate moving away from the traditional view on the subject. The emphasis was using Housing and the development of real estate as the engine for growth. The reason for a marked change in government intervention in shelter provision occurred due to many reasons. The salient ones are described below.

4.9 Background of Changes

a) The inability of the government to provide for Shelter for the shelterless

The Ninth Plan housing deficit stood at a whopping 21.1 million dwelling units\(^5\). The Tenth Plan housing shortage was estimated at 573130 million dwelling units. This figure does not include upgradation and 'kuchcha' construction. The table 4.1 below clearly indicates the population growth and dwelling units available and actual difference in the supply.


Chapter 4 - Recent Trends in Promotion of Construction and Housing
# Table 4.1: Housing scenario in India 1951-2021

**Million Nos**

<table>
<thead>
<tr>
<th>Years</th>
<th>Population</th>
<th>Households</th>
<th>Housing Units</th>
<th>Housing shortages</th>
<th>Value in Rs. Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>360.9</td>
<td>73.4</td>
<td>64.4</td>
<td>9.0</td>
<td>-</td>
</tr>
<tr>
<td>1961</td>
<td>439.2</td>
<td>83.5</td>
<td>79.2</td>
<td>5.2</td>
<td>-</td>
</tr>
<tr>
<td>1971</td>
<td>548.2</td>
<td>97.1</td>
<td>90.8</td>
<td>14.5</td>
<td>16620</td>
</tr>
<tr>
<td>1981</td>
<td>683.3</td>
<td>122.6</td>
<td>114.4</td>
<td>21.1</td>
<td>69700</td>
</tr>
<tr>
<td>1991</td>
<td>846.3</td>
<td>153.2</td>
<td>147.1</td>
<td>22.9</td>
<td>325800</td>
</tr>
<tr>
<td>2001(P)</td>
<td>1022.1 (Yr. 1995)</td>
<td>191.2</td>
<td>174.1</td>
<td>19.4</td>
<td>573130</td>
</tr>
<tr>
<td>2011(P)</td>
<td>1164.3</td>
<td>223.5</td>
<td>191.2</td>
<td>32.3</td>
<td>NA</td>
</tr>
<tr>
<td>2021(P)</td>
<td>1545.4</td>
<td>314.2</td>
<td>223.5</td>
<td>90.7</td>
<td>NA</td>
</tr>
</tbody>
</table>

+ Excluding Jammu and Kashmir P Projections

2. NICMAR Construction Statistics, 1993, Pgs. 15-16

---

**b) Real Estate Crash 1995-1998**

Though the Indian economy grew at an annual average pace of 6.55 per cent between 1992-93 and 1998-99 it did not translate profits for the real estate industry though the two are closely linked because for every rupee invested in construction, 78 paise is added to the GDP. Second, the housing sector was accorded 'infrastructure' status and incentives offered to attract investments under Section 80 1B of the Income-Tax Act. Third, the Urban Land (Ceiling and Regulation) Act, was repealed in January 1999, with a target to free 0.2 million hectares of land in 64 cities around the country. In all metro and mini metro markets (Pune, Banagalore, Hyderabad, Ahmedabad, Lucknow etc.) property prices crashed following the boom that had generated after the Gulf War. Moreover the Indian software professionals who had left for the US in view of the famed ‘Y2K’ computer corrections were repatriating dollars...
that were being invested in real estate. This investment was of investing/speculative nature that had led to the bubble.

Coming as it were on the backdrop of the South East Asian Crisis and a general global recessionary trend prevailing at the time; the formulation of the NHHP proved to be vital for the growth of this sector. A careful study will reveal that banks had excess idle funds and were therefore in a position to lend to the householder. Also the market of real estate had witnessed a crash (1996).

During this period lending to the owner-occupier category and not the investor/speculator was encouraged and thus the investment in housing began to pull India out of the general recession. Due to the fiscal incentives given to housing, the housing finance credit grew upto Rs. 62000 crores in 2002-03 from a mere Rs. 12000 crores in 1998-99.

The government quickly intervened and brought down interest rates to 12 per cent in the same period from around 15-16 per cent in the previous years.

4.9.1 Industry level Changes

a) Real Estate recognised as ‘Industry’

In 1998, the government accorded the real estate sector ‘an industry status’. Following this recognition the government has made it mandatory for banks to maintain 3 percent of the incremental deposits of the banks to be reserved for housing lending.

b) The Foreign Direct Investment in Real Estate

In the year 2001 for the first time following the adoption of the NHHP, Foreign Direct Investment was introduced in the field of real state. In the Annual Budget 2005 –6 the limits on credit were further brought down in the area of mega township development projects and urban infrastructure projects. FDI in retail and hotels was welcomed.

c) Fiscal incentives introduced by the government since year 2000

Housing credit has grown around 416 percent in the years between1998 – 2002-03. This has been due to the tax deduction exemption of upto Rs. 150,000 in the interest payable on housing loans. This has also led to the average age of the buyer drastically reducing. Young working couples in the early twenties are now buyers of residential flats.
The housing industry is predicted to grow at the rate of 24 per cent per annum\textsuperscript{7} from the year 2003–07. This sector showed growth rates of 36 percent in 2000-01\textsuperscript{8} and 35 per cent in 2001-02.\textsuperscript{9}

d) **Owner Occupier driven demand**

The industry showed a positive trend towards owner-occupier demand. This sort of demand is healthier for the market as it eliminates unnecessary speculative pressure and keeps the market prices down.

e) **Introduction of Real Estate Mutual Funds**

In the real estate sector access to formal channels of capital and project finance are of utmost importance. One of the major reasons for the less than acceptable development of this channel of business has led to severe problems for the business. The likelihood of the industry playing into the hands of the undesirable elements cannot be overruled thus lending it a dubious reputation.

f) **Entry of corporates in real estate**

Many professional companies are adding real estate to their diversified portfolio due to which professional talent is being drawn into the pool. In the light of growing globalisation this is welcome as businesses are forced to take into consideration contingency plans both in terms of additional space and geographical diversifications of their supply and manufacturing chains.

4.10 **Concluding remarks**

The need for real estate has never been more urgent and more profound. While at the one end of the spectrum is the homeless population, on the opposite is the luxury condominium demand of the rich and the nouveau rich class of people. The real estate industry in India is poised for a tremendous leap.

\textsuperscript{7,8,9} CRIS- INFAC, Crisil subsidiary’s research report 2002-03