

## **CHAPTER – II**

# **HOUSING AND HOUSING FINANCE SCENARIO IN INDIA**

### **2.1 INTRODUCTION**

A House is not a place of dwelling alone. It also satisfied an individual's social and psychological needs. According to Abraham H.Maslow's (Stephen. P. Robbins 1998) theory of motivation popularly known as hierarchy of needs, house is covered under safety or security needs.

In the U.S. experience, housing drives GNP through sizable multiplier effects that accompany construction, maintenance and transactions in real estate. For the entire residential sector, \$1 of activity generates \$4 of GNP. In developing countries housing investments account for three to eight percent of GNP and 15-25 percent of Gross capital formation (The Hindu Survey of Indian Industry 1998).

In India, the number of dwelling units has not been increasing in commensurate with the rise in population. The growth rate in housing was more in urban areas than in rural areas. While there was a four percent growth in urban areas, in rural areas it was just 1.9 percent (Business India 2002). This is due to increased urbanisation and formation of more nuclear families.

In India one billion plus population lives in over 140 million houses, dotted over 25 metro cities, 2500 small and medium towns and over 41 lakh villages (Chartered financial analyst 1997). There is a need for increased supply of housing as the gap between demand and supply of houses is widening. This can be done by improving the existing repairable housing stock, by adopting

effective technologies in housing construction, providing access of land, finance and building materials.

The demand for housing is indeed phenomenal. In fact it is virtually unlimited as more and more people are now aspiring to have houses of their own. The housing problem is aggravated because of an increasing pressure of population, and the high cost of housing in India. A quick review of the prices of property are at least five to ten times (Parimal H.Vyas 2002) the annual income of the average family and that makes it unaffordable for large number of Indian consumers.

One can find an ever-increasing demand for housing units in India mainly due to pressure of population. India today possesses about 2.4 percent of the total land area of the world but she has to support about 16 percent of the world population. At the beginning of this century, India's population was 236 million, and according to census 2011, the population of India was 1027 million. (census India 2011) Table 2.1 provides brief picture of rural and urban population according to census 2011.

**TABLE 2.1**  
**CLASSIFICATION OF TOTAL POPULATION INTO RURAL AND**  
**UBRAN POPULATION IN INDIA**

| <b>S. No</b> | <b>Year</b> | <b>Total population (in million)</b> | <b>Urban population (in million)</b> | <b>Rural Population (in million)</b> |
|--------------|-------------|--------------------------------------|--------------------------------------|--------------------------------------|
| 1            | 1961        | 361.1                                | 62.4 (17.3)                          | 298.7(82.7)                          |
| 2            | 1971        | 439.2                                | 78.9 (18.0)                          | 360.3(82.0)                          |
| 3            | 1981        | 548.2                                | 109.1 (19.9)                         | 439.1 (80.1)                         |
| 4            | 1991        | 683.2                                | 159.5 (23.3)                         | 523.8 (76.7)                         |
| 5            | 2001        | 846.3                                | 217.6 (25.7)                         | 628.7 (74.3)                         |
| 6            | 2011        | 1027.0                               | 285.0 (27.75)                        | 742.0 (72.25)                        |

Source : Registrar General, India.

Figures in parentheses indicate percentage to total

The supply of new houses has not kept pace with the demand. For instance in Mumbai alone as against an annual demand of 70,000 new units, the supply of houses is 40,000 units only (The Hindu survey of India Industry 2008), Table 2.2 shows shortage of housing units in India.

**TABLE 2.2**  
**SHORTAGE OF HOUSING UNITS IN INDIA**  
**(NUMBER IN MILLION UNITS)**

| <b>Place / Year</b> | <b>2001</b> | <b>2011</b> | <b>Total</b> |
|---------------------|-------------|-------------|--------------|
| Rural               | 14.67       | 12.76       | 2743         |
| Urban               | 8.23        | 6.64        | 14.87        |
| Total               | 22.90       | 19.40       | 42.30        |

**Source : Housing finance in India IBA Bulletin Sept. (2011) p.31**

## **2.2. HOUSING AND URBAN POLICY IN INDIA**

Housing Policy in India in the early post – independence phase, since the year 1947, was very much ‘social’ in nature ; a policy , though un written, leaning towards strong state control, and direct government involvement in housing construction.

The policies of urban development and housing in India have come a long way since 1950. The pressure of urban population and lack of housing and basic services were very much evident in the early 1950s. In some cities this was perception of the policy makers was that India is predominantly an agricultural and rural economy and there are potent dangers of over urbanisation which leads to the drain of resources from the countryside to feed the cities. The positive aspects of cities as engines of economic growth in the context of national economic policies were not much appreciated and, therefore, the problems of urban areas were treated more as welfare problems and sectors of residential investment rather than as issues of national economic importance.

The National Housing and Habitat Policy (NHHP), 1998 effectively rooted the government out of direct construction activity and delineated a facilitation role for it in the housing segment. Citing the massive deficit in housing units in 1997, and the astronomical investment required to meet the short fall, the policy called for private sector participation in fulfilling the social goal of providing housing. It was envisaged that the government would create an 'enabling environment' through legal and regulatory reforms and fiscal concessions to encourage the private sector to take up various aspects of housing such as land, assembly of construction and infrastructure services.

### **2.3 HOUSING UNDER PLAN PERIODS**

In the first five – year plan (1951 – 56) the emphasis was given on institution building and on construction of houses for Government employees and weaker sections. A National building organisation was set up in 1954, with a purpose of developing building research and techniques.

The scope of housing programme for the poor was expanded in the second five – year plan (1956-61). The industrial housing scheme was widened to cover all workers. Three new schemes were introduced namely Rural housing, Slum clearance and sweepers housing. The Life Insurance Corporation (LIC) of India entered in the housing sector to provide funds for house to Middle Income Groups (MIGs), and to State Governments for undertaking rental housing for their low paid employees.

The general directions for housing programmes in the third plan (1961-66) were co-ordination of efforts of all agencies and orienting the programmes to the needs of the low – income groups. In this period only new programmes were launched for economically weaker sections, dock labour, and pavement dwellers of the society. The focus was on land acquisition and development.

The balanced urban growth was accorded high priority in the sixth plan (1977-1982). The plan stressed the need to prevent further growth of population in large cities and need for decongestion or dispersal of population. It also concentrated on providing cheaper houses on a need based approach by organising supply of materials, and by pursuing research in housing.

The seventh plan (1982-1987) reiterated the policies of the preceding plans to promote smaller towns in new urban centres, in order to take care of increasing pressure on urbanisation. It adopted distinctive and separate provision on the continuing housing efforts. It had a rigorous emphasis on an improvement in housing conditions.

The thrust of the planning in the Eighth plan (1987-92) was intergrated provision of services along with shelter, particularly for the poor. The integrated development of small and medium towns was launched in towns with a population of below one lakh for provision of roads, pavements, minor civic works, bus stands, markets , shopping complex etc. The other important features of this plan were promotion of housing activity, propagation of low cost housing techniques, avoidance of direct subsidies for urban housing and increased stimulus for private housing.

The Ninth plan (1992-1997) stressed on the need to entrust major responsibility of housing on the private sector. A three – fold role was assigned to the public sector namely mobilisation of resources for housing, provision for subsidised housing for the poor, acquisition and development of land. The National Housing Bank was set up to expand the base of housing finance. This plan, while maintaining earliest priorities, added few others like promotion and encouragement of self-help housing, and provision of house-sites in identified rural areas.

The Tenth plan (1997-2002) identified the key issue in the emerging urban scenario. Unabated growth of urban population aggravating the accumulated backlog of housing shortages, resulting in proliferation of slums and squatter settlement and decay of city environment. Only in this period an idea in the form of a long-term objective as shelter for all was initiated and developed. The most significant development that took place was formulation of National Housing policy. The policy clearly stated that the prime obligation of the Government under housing sector is not to take the task of building houses, but to create a facilitating environment for the growth of housing activity. It would help to promote the housing activities of co-operative, private and corporate sectors.

The Eleventh Five Year Plan (2002-2007) estimated the need of a total sum of Rs. 1.50.370 crore for construction of 330.1 lakh urban units.

The Twelfth Five Year Plan (2012-2017) estimated requirement of about four to five million houses each year of the plan period. However, financial allocation for housing as a percentage of the total investment in the economy has now come down to as low as 2.4%.

A look at the five year plans reveals the manner in which the Government of India had perceived the housing sector in the initial year and subsequent years. Financial allocation for housing as a percentage of the total investment in the economy was as high as 34 percent in the first five year plan (1951-56) but now has come down to 2.4 percent at the tenth five year plan (V. Subbulakshmi 2004).

The table 2.3 shows the investment in housing sector during successive five-year plan periods.

**TABLE 2.3**  
**INVESTMENT IN HOUSING (Rs. in. Billion)**

| S. No | Five year plan     | Investment in Housing / House construction |         |        | Housing investment as a proportion of total investment (in percent) |
|-------|--------------------|--|---------|--------|---|
|       |                    | Public                                     | Private | Total  |   |
| 1     | Third (1951-56)    | 2.5  | 9.0     | 11.5   | 34.0  |
| 2     | Four (1977-1982)   | 3.0  | 10.0    | 13.0   | 19.0  |
| 3     | Six (1982-1987)    | 4.2  | 11.3    | 15.5   | 15.0  |
| 4     | Seven (1987-1992)  | 6.3  | 21.7    | 28.0   | 12.0  |
| 5     | Eight (1992-1997)  | 7.9  | 36.4    | 44.3   | 9.3   |
| 6     | Nine (1997-2002)   | 14.9                                       | 180.0   | 194.9  | 12.5  |
| 7     | Ten (2002-2007)    | 24.6                                       | 290.0   | 314.6  | 9.0   |
| 8     | Eleven (2007-2012) | 77.5                                       | 697.5   | 775.0  | 7.3   |
| 9     | Twelve (2012-2017) | 377.5                                      | 1132.5  | 1510.0 |   |

Source : Financial express 9<sup>th</sup> November 2012, FE investor P.3

\* Date not available

## 2.4 NATIONAL HOUSING POLICY

Housing is a State subject, but the Union Government is responsible for the formulation of policy with regard to programmes and approaches for effective implementation of housing scheme. The National Housing policy (NHP) was formulated by the Government of India taking into account the developments of national and international scene on shelter sector after 1988. The policy was endorsed by the parliament in August 1994. The long term goal

of the NHP is to eradicate homelessness, to improve the housing conditions of the inadequately housed and to provide a minimum level of basic services and amenities to all. It recognizes the magnitude at different levels i.e., the co-operatives, the community and the private sector. The policy envisages a major shift in Government's role to act more as a facilitator than as a provider. The needs of the vulnerable sections of society will continue to be attended to, by the Government as part of implementation of national agenda for governance "shelter for all".

## **2.5 NATIONAL HOUSING BANK**

National Housing Bank (NHB) wholly owned by Reserve Bank of India (RBI) started its operations from July 1988. The main functions of NHB are,

- (i) Extending financial assistance for housing finance institutions and scheduled banks. Undertaking research and surveys on construction techniques and other studies relating to or connected with shelter, housing and human settlement.
- (ii) Formulating schemes for mobilisation of resources and extension of credit for housing.
- (iii) Formulating schemes for the economically weaker sections of the society.
- (iv) Providing guidelines to the housing finance institutions to ensure their growth on sound lines.

NHB's chief mandate is to promote a sound and healthy housing finance system. Towards this end, NHB has formulated its guide lines, compliance with which is a pre-condition for a housing finance company to avail financial assistance from NHB. The guidelines require that in addition to complying with the directions, a HFC desiring to obtain financial support from NHB should have a minimum paid up share capital of Rupees one crore with equity

participation by institutions (Scheduled banks / public financial institutions / Government / HFC's approved by NHB), Institutional representation on its Board of directors etc.

## **2.6. HOUSING FINANCE IN INDIA**

Acquiring a roof over one's head, or rather owning a house remains a distant dream for an average Indian. Though there are several problems like land, labour and materials, finance has for long been a limiting factor for housing. In March 1998, the Reserve Bank of India (RBI) conducted a detailed study on the total housing finance requirements of the country, and based on it, issued directions, to commercial banks. As per the directive, each bank had to meet a specific housing finance target. In 1999-2000 finance bill (Budget 1999-2000) all commercial banks, have been compulsorily asked to extend housing loans up to three percent of their incremental deposits. It was laid down that 60 percent of the allocation set apart for housing should be extended to individuals and groups as direct finance, and to the state housing boards and Housing and urban development corporation (HUDCO) as indirect finance. The remaining 40 percent could be invested in debentures and bonds of housing finance institutions. A significant features of this bill was that not less than 50 percent of the total finance should be for the scheduled caste and scheduled tribes, the weaker sections and the low – income groups.

The Housing Finance industry in India is booming. Loan disbursements have grown at a Compounded annual growth rate (CAGR) of over 35% in the five years from 2010-2015. The table 2.4 shows Housing finance disbursements from the year 2010.

**TABLE 2.4**  
**HOUSING FINANCE DISBURSEMENTS BY VARIOUS**  
**INSTITUTIONS**  
**(Rs. in Crores)**

| <b>Primary lending Institutions (PLIs)</b> | <b>2010-11<br/>Rs.</b> | <b>2011-12<br/>Rs.</b> | <b>2012-13<br/>Rs.</b> | <b>2013-14<br/>Rs.</b> | <b>2014-15<br/>Rs.</b> |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| Commercial Banks*                          | 5553.00                | 8566.00                | 23553.00               | 32816.00               | 50398.00               |
| Housing Finance Companies                  | 12638.00               | 14614.00               | 17832.00               | 20862.00               | 26000.00               |
| Co-opreative Institutions                  | 868.00                 | 678.00                 | 642.00                 | 623.00                 | **421.00               |
| Total                                      | 19059.00               | 23858.00               | 42027.00               | 54301.00               | 76819.00               |
| Annual Growth (In %)                       | 35.07                  | 25.18                  | 76.15                  | 29.21                  | 41.47                  |

**\*Source : RBI NHB (for 2014-15)**

There are 31 HFC's registered with the NHB which contribute to the major share of housing finance business. The number does not include numerous banks that have also entered into the fray recently. The fragmented nature of the housing finance industry is a major impediment for its further growth. Despite this, the industry has managed to grow mainly due to a consistent decline in interest rates, tax incentives extended by the Government and change in income profile of the Indian middle class population.

In order to provide adequate finance at the institutional level, A National Housing Bank (NHB) and various institutional financing outlets have been established with a view to augmenting the appropriate financial assistance for covering the larger housing needs through various sources.

An estimate of investment required to meet the housing shortage in India indicates that a sustained yearly investment of around 30,000 crores at 2003 prices would be required. This is around four percent of the Gross Domestic Product (GDP). The current level of investment in housing as a proportion of GDP is less than 2.5 percent.

## **2.7 SOURCE OF HOUSING FINANCE IN INDIA**

One of the challenges that have taken place in the Indian economy since the late eighties is considering the housing sector as a priority area for investment. This has paved the way for organising a housing finance market. Though there has been a spurt in the number of financial institutions in the public, commercial, private and co-operative segments to supply credit to housing loan borrowers, the financial needs of the common man, especially in backward and rural areas, are yet to be met.

Housing Development Finance Corporation (HDFC) commanded a market share of 63% in the housing finance market. Life Insurance Corporation housing Finance, Can Fin Home Limited, State Bank of India Housing Finance, Bank of Baroda Housing Finance, Dewan and Housing Finance are other major players in the market.

Specialised housing finance institutions mainly include two players Housing development Finance Corporation (HDFC) and Life Insurance Corporation Housing Finance (LICHF). They have captured 75 percent of the

market share. They have recorded on an average growth rate of about 30 percent in housing loan sanctions and disbursements. (Capital Market 2004). It also includes other players like General Insurance Company Housing finance (GICHG), Diwan housing Finance Ltd., (DHFL). Many other medium and small housing finance companies are also in the field.

Banks consist of mainly nationalised banks, foreign banks and private banks. At present nationalised banks have increased their participation in housing finance companies. Major reasons for aggressive entry of public sector banks include consistent increase in demand for housing finance, liberalized Government policy, and the presence of substantial volume of Non-Performing Assets (NPA) in banks.

The important strengths of banks are strong traditional base of regular consumers, wide spread network of branches, exposure in the urban as well as rural markets, competitive interest rate structure, low cost of funds, strong base of availability of funds and mass marketing approach. However the limitations of banks include poor standard of consumer's services and slow pace in adopting technological changes, and such other developments. Almost all major banks provide housing finance.

Co-operative movement in housing sector is one of the oldest forms of financing, which took a definite shape only with the establishment of state level bodies as the spokesmen during the fifties. The Co-operative housing sector is mainly represented by the housing co-operative in India. It is being formed mainly by the economically weaker section of the society, low-income groups and middle income groups. It is being supported and assisted by the government and the people themselves.

## **2.8 GROWTH OF HOUSING FINANCE INDUSTRY IN INDIA**

There has been a substantial growth in housing finance sector in India. The following are the main reasons for it.

### **(i) Population Growth :**

Ever increasing population is one of the main reasons for the growing demand of housing in India. Apart from increase in population an increase in the number of family members, the trend of partition, separatism and growth of nuclear families in the country, relaxed social customs and traditions, migration of youth in city areas, change of vocations, and gradual increase in participation of women work force during last few years aggravated housing problem and there by increased the demand for housing finance.

### **(ii) Cost :**

Cost escalations that have taken in housing inputs namely materials, wages and other inputs have necessitated people to build or buy a house with the financial assistance from housing finance agencies.

### **(iii) Slump in Real Estate price :**

Initially after the initiation of economic reforms in July 1991, the real estate price have consistently increased. However, due to the overall recessionary trends in the industrial sectors, the prices of real estates have started to fall gradually. Thus, a slump in real estate market is an added incentive, as lower prices may tend to attract many individuals in the housing sector in near future. Despite the slump in real estate prices, purchase of house remains the most expensive tradable item in the market for ordinary individual consumers. All such developments are largely responsible for consistent increase in demand for housing finance in India.

**(iv) Repeal of Urban Land ceiling and Regulation Act (ULCRA) 1976 :**

The misuse of urban land ceiling and regulation Act 1976 was responsible for creating an artificial shortage of supply of land in the urban areas. As ULCRA is eliminated the unfreezed land will now become available for housing purpose. It has resulted in an increase in supply of land ; relatively affordable for consumers. As more land is available, construction activity will increase ultimately the need for housing finance will increase.

**(v) Change in Attitude of Customers towards Credit :**

There is a remarkable Change in the attitude of customers towards credit. The borrowing by an individual for personal reasons was regarded as an unhealthy practice among the masses of India. Due to Nationalization of banks and adoption of Socio-economic philosophy in banking the majority of the consumers developed banking habits and the use of banking facilities. The majority of consumers now prefer to spend rather than save. They feel happy to buy multiple products, and also to make payment of interest rather than wait for years to save, accumulate money and buy certain products at the end.

**(vi) Tax Rebates and Benefits :**

Review of taxation policy from 2007 onwards indicate the crucial role being played by the Government of India with regard to housing finance activities. The central budgets of the past years contained several sops for individual housing loan seekers. They are offered tax exemption in case of borrowing for housing purposes. At present the entire amount of interest paid on housing loan is allowed as deduction in computing the income from house property. Further repayment of principal upto Rs. One lakhs allowed as deduction under section 80C of the income tax act. These factors have contributed for the rapid growth of housing finance in India.

## **2.9. CONCLUSION**

A massive shortage of housing in India is responsible for growth of housing finance in India. There is a serious mismatch between demand and supply of house in the country. While the demand for houses has gone up at a fast pace on account of sheer addition to the population, a pronounced shift towards urbanisation, rising income of the people and the distinct trends towards nuclear families, the aspirations of people can not be fulfilled easily on account of a tremendous spent in real estate prices.