OPINION

Affordable housing for sustainability

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We see planned urbanisation on global standards as the way to reach a 'developed' state and not many consider peace and prosperity as 'development'.

But sustainability has a direct link with peace and prosperity. We know all real estate and infrastructure development has to be sustainable because it was the 'right thing to do'. However, hardly ever do we think of affordability as the core of sustainability.

Affordability largely represents lower income group (LIG) and lower middle income group (LMIG) segment of urban populace. While the 2001 census of India showed about 72 per cent of the population lived in rural areas and 28 per cent in urban areas, the next census in 2011 showed these figures as 69 per cent rural and 31 per cent urban population.

The LIG band and LMIG band which is sourcing decent housing conditions is approximately at 400,000 units currently.

The buying power and credit worthiness of the LIG and Lower MIG customer base is far better and the average monthly income of this segment ranges between 25K to 70K.

The likelihood of business loans and other high interest bearing loans burdening these households is less. Thus a healthy Debt-Income Ratio of 30 per cent to 40 per cent can be maintained by these households to service EMIs (Equated Monthly Instalments) for next 15 to 20 years. This means EMIs ranging between 10K to 30K per month are 'affordable' to these segments.

It is thus easily inferred that at today's home loan lending rates a debt of 1.8 million to 5 million can be serviced by this section of prospective home buyers while maintaining a good credit rating. The affordable 'Ticket Size' for such a household is Rs2.5 million to Rs6.5 million. The built-up area of the LIG to MIG apartment ranges between 600 square feet to 900 square feet which means the product can be successfully sold at Rs4,000 to Rs6,000 per square feet.

No great subsidies and tax holidays are required to service a customer base that is credit worthy with a healthy credit rating. It is only the developer's cost of procurement of FSI and his Development Management which are the determining factors for such proposal to be a good investment opportunity.

Institutional Investors and PE Fund houses have always backed sustainable developments as a rule emanating from their own governance frameworks. Presently, it is easier for such institutional participants to work with bigger real estate developers as compared to first timers and smaller developers to achieve this goal. PE funds are increasingly backing up a select group of developers who have streamlined corporate governance within their organisation. Unfortunately these large organised developers are not prioritising product development and business development within the LIG and Lower MIG segment.

Corporate governance qualities are inherent to customer satisfaction when it comes to servicing the LIG and MIG segment since they cannot afford delays and cost overruns. Ironically, it is the unorganised inefficient developers who are generally found catering to this customer base leaving them largely unsatisfied and dismayed. This negative sentiment indirectly propagates the continued existence of unauthorised settlements. Our urban societies continue to be hounded by these vicious circles.

In such a scenario, the way forward for institutional investors and PE Fund houses shall be to hand-hold the smaller developers through active management. The task of working with such developers may seem fraught with investment risks but is a 'doable task'. Any investment can be ring fenced by the investment manager except the risk of 'marketability'.

This primary risk is taken out of the equation in case of Low Ticket Size and Mid Ticket Size housing developments where there is a burgeoning demand. Also, with the minimum capitalisation norms greatly relaxed and the minimum built up are limits reduced for FDI in Real Estate, the gates have opened for institutional investors and PE Funds to work proactively on mid size projects.

The government's initiatives such as 'Housing for All by 2022' and 'Ease of Doing Business' mean that there are additional incentives such as housing loans at lower rates, higher FSI, ease of land use conversion, etc. These initiatives will make the project economics more competitive. A project that adheres to its business plan, automatically reduces its adverse impact on the environment and is automatically high on the sustainability aspect.

Urban planning and other statutory authorities continue to impose stricter environmental compliances on the organised housing sector. Ironically, a large population continues to live outside the ambit of these laws by settling in illegal settlements due in-affordability.

Affordable housing schemes will automatically relieve the built environment of some stress put on the natural resources, infrastructure and life and limb of inhabitants. We thereby see affordable housing as the core element to sustainable development. ■