

Channelling Financial Flows for Adequate and Affordable Housing

**Renu Sud Karnad
Joint Managing Director
Housing Development Finance
Corporation Limited - India**

FIG Working Week 2008
Integrating Generations
June 17, 2008
Sweden

Contents

- Overview of housing in India
- Housing finance in India
- Issues of affordable housing
- Government initiatives
- Role of the private sector
- Case study: HDFC

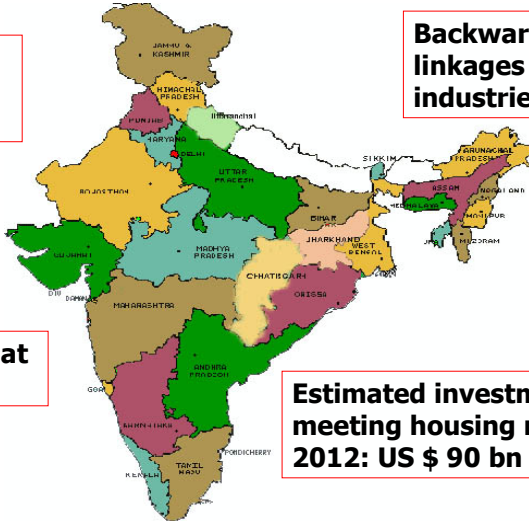
Housing –The Pulse of the Economy

2nd largest employment generator

Backward/forward linkages – over 269 industries

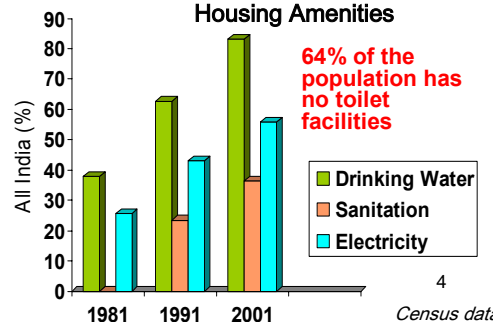
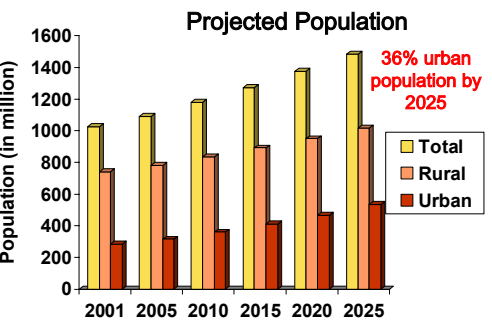
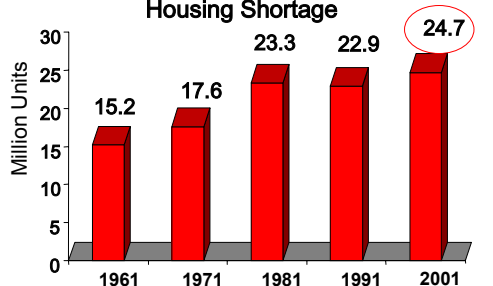
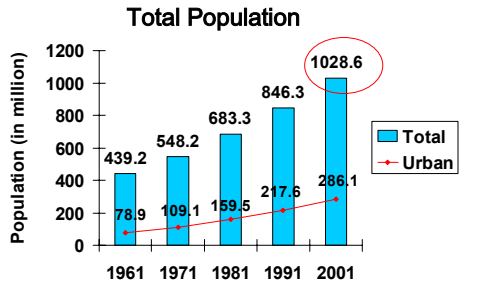
Sector growing at over 30% p.a.

Estimated investment for meeting housing needs up to 2012: US \$ 90 bn

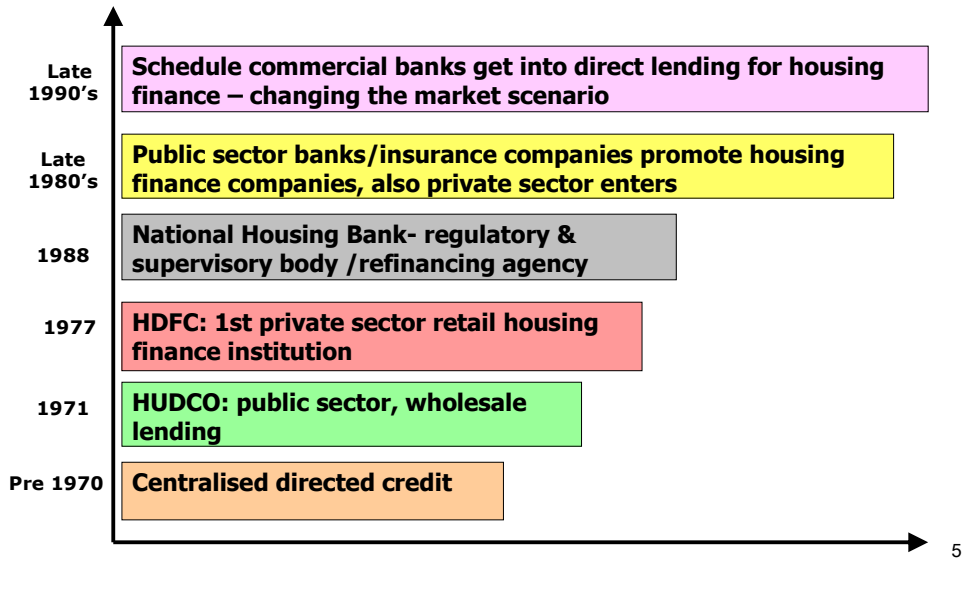


Every INR 1 invested in housing adds INR 0.78 to GDP

Demographics and Housing



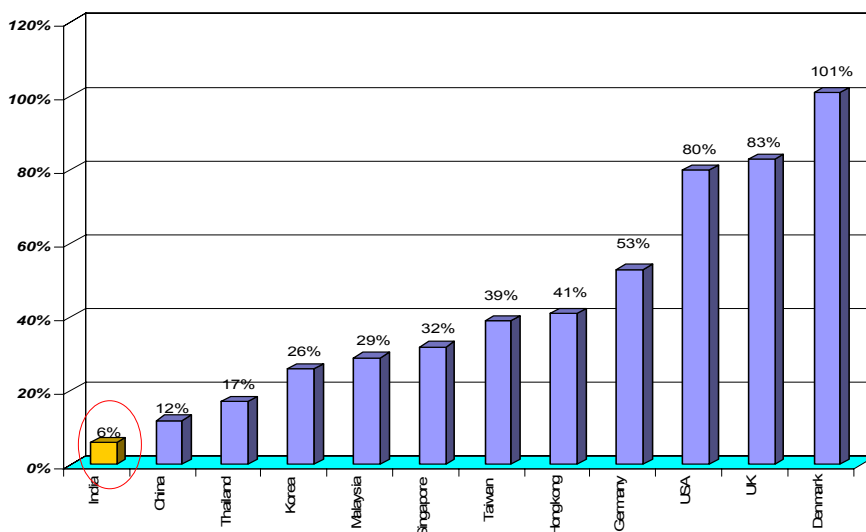
Housing Finance- Timeline



5

Low Penetration Implies Room for Growth

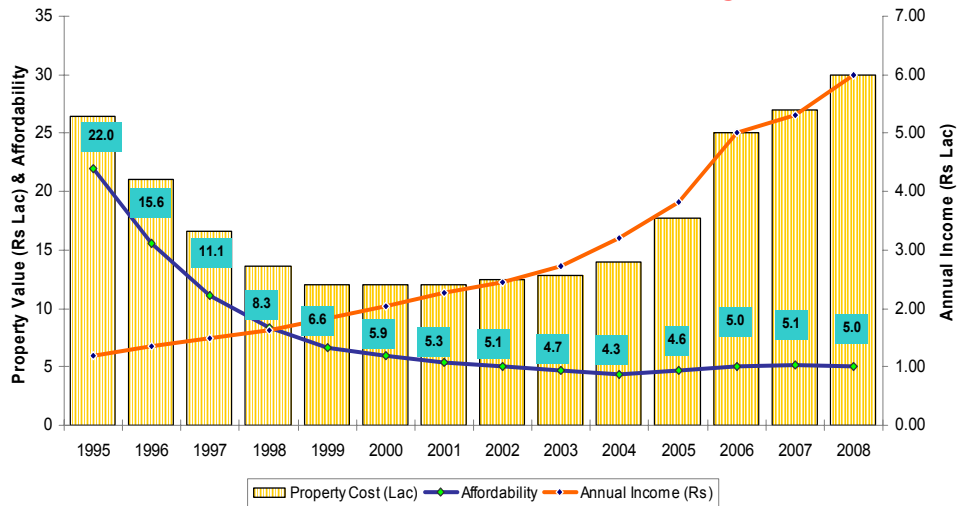
Mortgage as a % of GDP



Source: European Mortgage Federation, 2006 & Asian Development Bank, 2007

6

Improved Affordability



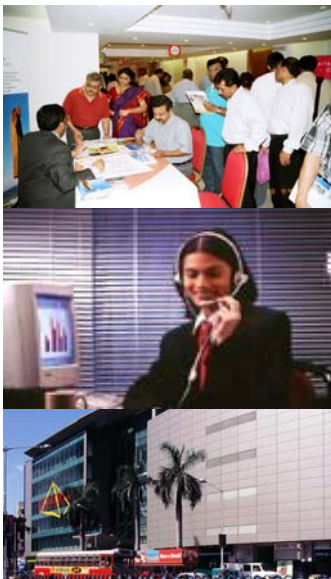
1 Lac = 1,00,000

Property price estimates in suburban Mumbai

Affordability equals property prices by annual income

7

Market Features



- Loan Features
 - Mostly floating rate
 - Max. LTV = 85% (65% for HDFC)
 - Avg. Size: approx. USD 35,000
- Aggressive marketing and distribution
- Role of direct selling agents
- Cross-selling of products
- Growth in Tier II and Tier III cities
- Rapid growth in non-residential real estate sector, particularly in IT/ITES sectors

8

Sources of Funding for Housing Finance

- Housing finance accorded priority sector lending status
- Key funding sources:
 - Term loans from banks/financial institutions
 - Bond market
 - Retail/wholesale deposits
 - Loans from multilateral agencies
- Financial institutions are now disallowed from accessing the External Commercial Borrowing Market
- Need for long-term funding sources-insurance, provident and pension funds
- Securitisation market still at nascent stage

9

Issues in Affordable Housing

Housing Costs

Components	%
Land Cost	49
Labour Cost	5
Material Cost	28
Profits	18

Source: McKinsey

- Urban areas have created job opportunities, but not provided sufficient affordable housing, leading to proliferation of slums
- Artificial scarcity of land – legal constraints
 - Urban Land (Ceiling & Regulation) Act
 - Rent control
- High transaction costs – stamp duty, registration
- Lack of reliable data
- Slum rehabilitation programmes – politically sensitive

10

Measures Needed for Low Cost Housing

- Developers must be provided with incentives to build low cost housing
 - Increasing FSI
 - Developer to resettle slum and in return can use the remaining land for commercial purposes
 - Fiscal incentives
- Rehabilitation and resettlement initiatives must have community development
- Financing issues
 - Need clear land titles
 - Mortgage insurance
 - Lack of data on credit history
 - Timely credit more important than subsidised credit

11

National Urban Housing & Habitat Policy 2007

- Core focus is “Affordable Housing For All”
- Assist the Economic Weaker Sections (EWS)/Low Income Groups (LIG)
 - EWS - household income: Up to US \$ 83 per month
 - LIG - household income: < US\$ 83 >183 per month
- Create adequate and affordable housing stock, both rental and ownership
- Create public private partnerships
- Encourage in-situ slum housing over resettlement
- Shift from subsidy based housing to proactive financial policies including micro finance and self help group programmes

12

Mircofinance for Housing (MFH)

- MFH is a subset of microfinance
- MFH differs from mortgage lending in two ways: -
 - Loans are smaller and shorter-term
 - Not collateralised by property
- Offered by Microfinance Institutions (MFIs), cooperatives, banks, non government organisations
- Banks and MFIs: increasing partnerships
 - MFI acts as agents – receives fees for sourcing, underwriting and collection
 - Loans are made by MFIs – banks provide line of credit, bank's risk is on the MFI

13

HDFC: Low Income Housing Initiatives

- HDFC created a 'Shelter Assistance Reserve' wherein a portion of profits are transferred each year for participating and supporting social initiatives
- HDFC accessed low-cost funds from KfW to expand lending operations to economically weaker section (EWS) households.
- HDFC partners with grass-root level organisations
- Focus is on providing housing + income generating activity
- Disaster response: adopted a village in Maharashtra after an earthquake, partnered with KfW for relief and rehabilitation measures following the earthquake in Gujarat, financed reconstruction of houses in cyclone affected areas of Orissa.

14