



OPPORTUNITIES AND CHALLENGES IN HOUSING THE ECONOMICALLY WEAKER SECTIONS OF THE SOCIETY

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There exists a huge opportunity in using market based solutions to provide housing to the economically weaker sections (EWS) of the society. This opens up opportunities in housing construction, mortgage finance, vocational training, primary and secondary education, health services, financial services like insurance, banking etc in the semi urban and urban towns in India.

The overall shortage in EWS (Economically Weaker Section) and LIG (Low Income Group) housing in India has been estimated at close to 25 million dwelling units. With rapid urbanisation and increasing labour mobility arising out of shift from the agrarian economy to the industrialised and service economy that is emerging in India, this shortfall is increasing in leaps and bounds. With five people to a dwelling unit, the minimum living space required per dwelling unit is about 300 sq ft, which means that approximately 7,500 million sq ft needs to be built. At a conservative cost of Rs. 1000 (approx \$20) per sq ft in urban India where most of the demand exists, the overall investment requirement is staggering Rs. 7,500,000 million.

A project by Monitor Group for the National Housing Bank with active support from the World Bank explored commercial opportunities to serve low income households. The project concluded that even with current land prices (which are viewed as a major deterrent to private builders getting into

construction of affordable houses in the price range of less than Rs. 500,000), it is possible to build housing that lower and middle income level customers can afford.

Private developers are currently building housing at Rs. 1000 – Rs. 1800 per sq ft in vibrant neighbourhoods within one hour of the city centre in Metros, Tier I and Tier II towns. There is a huge opportunity in cities like Jaipur, Ahmedabad, Vizag, Kolkata, Pune etc to name a few.

Lower middle income customers can afford and are very interested in purchasing a house. A majority of such families live in poor quality rental housing (typically a single room of 100-250 sq ft with a shared toilet and bath). They spend almost 30-40% of their monthly income towards rent. While some of these households prefer to stay in the same neighbourhoods, many are very interested in moving to more distant suburbs if they can buy 300-400 sq ft flats.

There is a desperate need to create pilots to execute and demonstrate the social and economic change it can bring about to the lives of these families. As a follow-up of their project, the Monitor Group has created models to prove that such housing projects using market based solutions are not only viable but could fetch a return on investment of upto 50% or more.

The challenge here is on the technology front. We need to research, invent and adapt construction technologies being used in other parts of the world for constructing mass housing at low costs. We need to work out strategies to transfer such technologies and adapt them to our conditions to build affordable houses on large scales.

This opportunity, if looked at in a broader perspective, could be scaled upto a much bigger opportunity for employment, vocational training facilities, educational facilities, health facilities and other infrastructure facilities required. Once these families have access to formal mortgage finance from institutions, they would be gradually included into the mainstream financial system and thereby create opportunities for insurance and many other services.

The financial impact of such market based solutions can be enormous both at the aggregate level and at the individual level. It will not only financially transform the lives of the customers, but also have huge social implications – enhancing quality of life, creating employment opportunities, emotional security of a house, creation of an asset, etc.

In fact, Micro Housing Finance Corporation Ltd (MHFC) was set up for exactly this reason – to assist EWS / LIG families and those currently excluded by the mainstream banking

sector (particularly the informal sector which lacks documentation) in financing the purchase of their first home. By combining the best practices of the microfinance industry and mainstream housing finance companies, MHFC hopes to play a significant role in the development of active micro mortgage market, which is much needed, given the size of the informal sector.

However, what MHFC can do is obviously very limited, given the huge requirement in capital. Even if 1 million homes were built (which is not even close to solving the housing shortage problem), the financing required – at an approx Rs. 300,000 average size of the mortgage loan would be Rs. 300,000 million. Thus, there needs to be a massive impetus given not just to supply side (by assisting private developers who have a focus on lower income housing) but equally in setting up financial institutions which will focus on poorer and excluded sections of the society.

Links to related websites :

www.mhfcindia.com

www.mim.monitor.com/index.html