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Is affordable housing losing ground?

Lower returns, lack of regulatory incentives in terms of faster and lower cost project clearance and re-emergence of the premium segment are disrupting its takeoff

Srinjoy Sharma

An expanding economy and rising wages helped a rebound in demand of luxury residential segment but has skidded the 'affordable housing' sector as developers lost interest in this low-margin, high-volume business.

Developers of all hues including the listed firms, which had seized on affordable housing in 2008 to ride out the economic slowdown, have put brakes on this segment, and are instead speeding ahead to launch premium housing, where returns are double as compared to other segments.

Even though data shows that demand for mid-segment and low-cost housing is respectively twice and thrice that of top-end residential units.

Jackbastian K Nazareth, CEO of Puravankara Group, a leading Bangalore-based developer said lower 'profitability' has held back affordable housing from taking off.

"Developers, who had announced projects under affordable

housing, are amending their existing projects by reducing apartment sizes but without any reduction in costs," he said.

Ramesh Ramanathan, who runs the non-profit organisation Janaagraha, and has ventured into low-cost housing, where a unit costs less than ten-lakh rupees said the pull-back is also due to lack of government policy.

"We have only one set of byelaws meant for all the segments creating a supply-constraint to cheaper housing," said Ramanathan. "The economies are loaded against the segment"

His real estate firm, Janaadhar Constructions, is developing about 10 lakh square feet of residential space in the industrial town of Attibele, about 35km from Bangalore.

Analysts estimate the market-size of housing in the sub ten-lakh category in India is worth about 238 billion dollars. And, a report by the Royal Institution of Chartered Surveyors estimates 40% the population will live in cities by 2020, up from current 28%.

Bumpy road ahead

Real estate brokerage firm Knight Frank states that Bangalore itself will require 262 million square feet of residential space in 2011 fuelled by an emergence of strong middle income segment.

Developers, however, are shying away from these housing segments. Although, these segment of buyers are more immune to economic slowdown as witnessed in the recent past.

They do not depend on bonus

es or stock market gains and so remains insulated from credit crunch.

So, what's holding back the developers?

"The transaction cost of any property is almost same whether it costs Rs15 lakh or a crore rupee," said Amit Bagaria, CEO of real estate consulting firm Asipac. "Developers were forced to enter the affordable housing sector as the market for premium housing had tanked."

For this segment to flourish, Bagaria says it needs specialist developers who are into affordable real-estate space development rather than the regular ones.

"It's like a low cost carrier versus a full service carrier," he

said. "You have to trim your costs." "Most of the developers whether it's Shobha or Brigade or Puravankara have high overhead costs and that makes the affordable housing projects unsustainable in the long run."

To overcome this, Puravankara has set-up a subsidiary, Provident Housing and Infrastructure, which will cater to the affordable housing segment. And, the company has driven down costs by acquiring land on the outskirts of cities, and using modern construction techniques.

Provident, is selling apartments of 850-1075 sq ft, which it is developing on Yelahanka Dooda-

ballapur Main Road, each priced between 15 to 20 lakh rupees. It has also launched projects in Chennai.

But, infrastructure in the outskirts of the city is creaking while the transport system is poor leading to demand-constraint in this segment, analysts and developers said.

Provident is developing only 5.69 million sq ft of residential space against 20.25 million sq ft being developed by the parent Puravankara Group.

"For this sector to fly we need government to be proactive," said Ravi Puravankara, chairman and managing director of the Puravankara Group.

Ramanathan of Janaagraha added the government will need to have a single window regulatory approval, a higher floor-to-area ratio, which will lower the relative cost of land-holding and easier compliances for mixed-land usage.

"It took me three years to have the first set of approvals in place before we could launch our project," he said. "We had to break-up our proposal in three parts so work could at least start."

Inflation and credit risk

With, inflation spiraling steeped by higher food prices and the Reserve Bank of India (RBI) edg-

ing up interest rates, consumers of the affordable housing segment have less money in their hands to pay for the equated monthly installments.

Developers, say that's precisely the reason for banks to lend at subsidised mortgage rates or launch schemes to push-forward this sector, as it's sensitive to volatility.

Moreover, buyers find it difficult to fork out rent plus the interest outgo on home loans, as projects are likely to take more than two years to be completed.

"That further drives down demand as disposable income of these buyers gets further squeezed," said Ramanathan.

But, bankers say they are in the business of making money.

Arun Kaul, chairman and managing director of state-run UCO Bank said the bank's margins are under pressure as deposit rates have climbed up. And, that it doesn't make business-sense to lend at par or below the cost of funds.

"However, higher inflation and costly loans have increased the default risk," he added.

The founder of Janaagraha, however, says interest rate structure is skewed against this segment of borrowers. "For a two lakh loan you pay only 5 percent. But, if one avails a four lakh loan then he has to pay interest at 12 percent on the entire loan amount," Ramanathan said. "It should be in slabs like income tax structure so the average cost of loan remains low." Nazareth, however, predicts affordable housing segment to fly. "Simply because there is a need for homes for the demographic."

