An Economic Strategy For Inclusive And Sustainable Growth Of India

Executive Summary

Infrastructure is an integral component and a building block for economic growth. With the increasing population, there is a growing need for sustainable and affordable housing. According to a report by KPMG, India's urban housing shortage is estimated at 18.78 million units, which is projected to reach 48 million by 2022. In this report, we first understand the infrastructure and housing sector in India, the current demand for housing and policies affecting the sector.

In addition to population growth, urbanisation along with the adoption of the nuclear family culture in cities and towns aggrandizes the demand for houses. Tertiarisation of the economy is resulting in-migration from rural areas to urban areas, therefore, increasing the demand for urban affordable housing. Rising disposable incomes are also a driver as the capacity of individuals to spend increase.

To address the shortage the government has implemented various policies such as a) Pradhan Mantri Awas Yojana and b) Real Estate Regulation and Development Act 2016 (RERA). Further, the government is making efforts to improve the availability of credit by refinancing individual housing loans of about $US 3.1 billion. The government also offers tax benefits by allowing deductions to encourage people to buy houses.

Real Estate Regulation and Development Act 2016 has been implemented to safeguard the interests of homeowners. The act lays down rules and regulations that need adherence from residential and commercial real estate developers. The broker segment, that is unregulated and unorganised; is expected to shrink but will remain the primary source of information for average customers.

One of the key priorities of the government is to ensure safe and affordable housing. The 'Housing for all' scheme aims to provide every family with a 'pucca' house along with all the basic amenities such as water, toilets and 24x7 electricity supply. Under the initiative, they will be building 2.95 crore housing units in the rural areas and 1.2 crore housing units in the urban areas.

The Pradhan Mantri Awas Yojana – Urban has a goal to achieve 'housing for all' by 2022 and they have the following options to achieve it:

1. slum redevelopment in urban areas;
2. affordable housing by means of credit-linked subsidies;
3. Partnership with private agencies to provide affordable housing;
4. subsidy for beneficiary led individual house construction or enhancement

Introduction

The infrastructure sector has traditionally been and continues to remain a key driver of the Indian economy. And it is for this reason that it serves as the focal point of the development policies of the government in every budget. According to a report by IBEF (India Brand Equity Foundation).

“India has a requirement of investment worth Rs 50 trillion (US$ 777.73 billion) in infrastructure by 2022 to have sustainable development in the country. India is witnessing significant interest from international investors in the infrastructure space.”

FDI received in the infrastructure sector till date stands at US$ 24.8 billion (in the period from April 2000-June 2018) which basically implies an expected investment worth 31 times of the investment received so far.

Within infrastructure, housing development is of prime importance. The Housing sector has been receiving a lot of impetus recently which is quite evident from government policies. With urban migration at an all-time high and slated to increase further, the government is launching ‘affordable housing’ projects and developing plans for rural housing and urban housing with policies such as Pradhan Mantri Awas Yojana and the RERA (Real Estate Regulation and Development Act, 2016). In the budget of 2018, affordable housing was also given the infrastructure status. Along with providing investment impetus, the government is also targeting the improvement of credit availability. According to the report,

“The National Housing Bank will refinance individual housing loans of about US$ 3.1 billion in 2017-18.”

Government initiatives are reaping results which is evident in the housing sales data that suggests there has been a 16% growth to the tune of 245,000 units in seven major cities including Delhi-NCR, Mumbai, Chennai, Kolkata, Bengaluru, Hyderabad and Pune.

Housing Demand

The demand for housing stems primarily from the increasing population. As per Census 2011, India’s total population occupies 246 million households. With the population slated to grow by 11% in the next decade (2011-2021) to 1.4 billion, the demand for housing units will grow exponentially.

Other factors that are contributing to the demand-growth are increasing urbanisation coupled with the nuclearisation of families. As people are opting for alternate sources of employment, especially the move from agro-based employment opportunities in the rural areas to skill based jobs in the urban areas, families are migrating to the urban areas. Urban areas also offer better education, higher standard of living etc. The pace with which the Indian economy is developing [image:]and progressing, this trend is only going to continue and will further accelerate.

As is shown in the chart, the urban population as a % of the total is projected to increase to 36% by 2020, according to World Urbanization Prospects.

This coupled with the fact that the real disposable income of the population is increasing at large. According to Crisil’s analysis,

“Disposable income will rise as a result of the implementation of the Seventh Pay Commission’s recommendations, the One Rank One Pension scheme, and sustained low inflation. This will be an enabler for domestic consumption. Increasing disposable income, typically, has a positive correlation with demand for housing units as it increases the affordability.”

Tax incentives provided by the government further add impetus to the growing demand. Some tax benefits are:

- Tax deduction is available for home loans under two sections of the Income Tax Act of India
- Interest paid on home loan: As per Sec 24 (b) of the Income Tax Act, 1961, annual interest payments of up to Rs. 200,000 (three-lakh for senior citizen) on housing loans can be claimed as a deduction from taxable income.
- The Cabinet Committee on Economic Affairs (CCEA) approved a proposal to increase the interest subsidy to 6.5 percent for loans of up to Rs 6 lakh for Economically Weaker Section (EWS) and Lower Income Group (LIG) beneficiaries under the mission for affordable housing through credit-linked subsidy component of the 'Housing For All' by 2020 mission.
- Capital gains from the transfer of residential property, if invested in acquiring a residential building (within defined time frame), are exempt from income tax.

Source: Crisil Research

RERA

With increasingly obfuscated rules and regulations in practice in the real estate sector of the country, the Indian government finally heeded to protecting the interests of homebuyers by passing a Parliamentary Act targeting the real estate.

The RERA act (Real Estate Regulation and Development Act) was passed by the central government on 15th March 2016 with 59 of 92 provisions coming into effect from 1st May 2016 and the remaining coming into force exactly after 1 year. The act laid down the rules and regulations to be adhered to by for all residential and commercial real estate projects and also the punishment for non-compliance which included both capital punishment and jail term depending upon severity.

[image: https://lh4.googleusercontent.com/8k6FhT6bh_UK1_JhP8BSwKNwtMHmJb6o78s8ddcbViemturU-S9pGILWl-8Ejoc2mL9-cDdvn_frMC_JtFCYawRuJhbBFEIMQqa8TqptF9BHuyudBPLKLshl-4OoebEvgAe5wnQh]

It aimed at providing greater transparency to buyers regarding the real estate developers project execution. It mandated all incomplete projects to be registered with RERA authority within a timeline of 3 months failing which a heavy violation would be served to the builder. This act provided registration to all project promoters and real estate agents with all records being digital. The act also made the builder accountable for any post sales issues encountered by the customers.

The act required all states and union territories to appoint the tribunal, appellate authority and website for the implementation of the act and convenience of all the concerned stakeholder of real estate projects. The different states and UT’s have slowly come on board but still a few remain to implement the act.

Table:

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Buyer’s Protection

This act requires that 70% of the value of the transaction should be via a back account and through cheques, thus stemming the flow of unaccounted money in the sector which was rampant earlier.

Also it ruled that the builder had to specify the sale according to carpet area (which is clearly defined by law) rather than super built up area (loosely defined my word of mouth, with no legal definition) as in widespread practice earlier. The law also tightened the timeframe in which the consumer complaints have to be resolved and disposed by regulatory authority to 60 days from unspecified earlier, resulting in greater builder accountability and fear of getting caught by law.

It further added several protection layers:

- Reserve Account: Developer has to keep a reserve account containing 70% of transaction amount which cannot be diverted to other use than primary project.
- Progress Monitoring: Act mandates developers to keep the buyer abreast of construction status and send periodic report to the regulatory authority.
- Land Title: It is now required by law to declare title and interest on land which can be used against the builder in case any post sale issue discovered.
- Agreement Standardization: A government prescribed sales agreement is now made with punitive clauses for both buyers and sellers with respective terms and conditions.

Housing For All (PMAY-G/U)

This audacious plan was created with the goal of providing every household in India with a proper house (pucca house), both in rural and urban areas for the families below the poverty line. This plan not only provides housing for all the people in the country but also affects many other related sectors and issues alongside.

Current Situation

Currently nearly 3 crore families in the rural sector and 1.2 crore families in the urban sector are living without proper housing, as indicated by the Ministry of Housing and Urban affairs. The Government of India is looking to achieve this by 2022, as part of the “New India Vision 2022”. To achieve this, tremendous labour, both skilled and unskilled, will be required as well as providing some indirect stimulus for other sectors that have been struggling, like steel and

cement industries.

In 2016, the Pradhan Mantri Awas Yojana- Gramin (PMAY-G) was launched, under which the government provides assistance to the tune of ?1,20,000/- per unit when building in the plains and ?1,30,000/- per unit while building in hilly areas.

Features of PMAY-G

- It has been converged with other rural development programs like MGNREGS and Swachh Bharat Mission (Gramin) to construct toilets and pay for the unskilled labor
- The plan is to complete one crore houses in the rural areas between 2016-2019.
- It has been estimated that approximately ?81,975 crores would be required to complete this project

Around the same time, the Urban scheme was also launched under the name of PMAY-U. It aims to succeed through the following initiatives

- Redevelopment of current slums in urban areas
- Making the housing more affordable through a credit linked subsidy scheme
- Partnerships between private agencies and the public sector to provide affordable housing
- Providing subsidies for individual house construction that is done by a beneficiary

Progress till date

- In PMAY-G, around 32 lakh houses were built in 2016-17 while in the following financial year, they built an impressive 44 lakh houses.
- PMAY-U has been less successful due to the various constraints facing the urban planners like space constraints, too much red tape and the increasing number of slum dwellers. Out of a target of 1.2 crore houses, only 4 lakh houses have been built.

Implications:

There have been several causal effects observed by the housing industry since the final ground implementation of the act by the respective state governments. Some of the major ones are stated below:

There will be initial hiccups in costs and demand uncertainty as the system stabilizes and is implemented under a single umbrella law. There will be initial backlog and rise in cost of capital and project launch time. The resolution will depend upon the how the disputes are resolved by the tribunals.

It is expected that there will be resistance by promoters and builders to the act as they are one of the most powerful lobbying body in the country. Also as the states have been given the freedom to implement the acts independently there is bound to be differences and the dream of a pan India common real estate is unlikely to be realized.

The brokers segment which is estimated to contain about a million brokers with business to the

tune of $4-5 billion by some study estimates is likely to face a huge impact as it has traditionally been an unorganized and unregulated sector. Though the number is projected to decline they will continue to remain the main information source for the average consumer.

Conclusion

For a sustainable growth of the housing sector effective implementation of the policies are imperative. Addressing the need for more 20 million housing units will require the sector to overcome the following challenges:

a) Increasing access to finance

For the housing sector to proliferate it is important to increase access to the credit for the real estate developers as well as the buyers. The Niti Aayog report suggests the following to ensure access to the poor:

“The Department of Financial Services should consider a subcategory under priority sector lending (PSL) for affordable houses. It should also consider relaxing eligibility conditions for bank loans such as raising the cap of INR 10 lakh on the cost of the house and raising the INR 2-lakh income threshold.”

b) Adopting advanced technologies for construction

Adoption of new and sustainable technologies offer safe and disaster-resilient affordable housing. This will improve the quality of construction in a cost-effective manner and with environmental friendly material.

c) Reducing the bottom line to make houses more affordable

It is important to reduce the cost of construction in order to make it accessible to all.

d) Efficient use of land

According to the Niti Aayog, there is idle land belonging to PSUs that is either sick/loss making that can be utilised for the government schemes.

The union budget of 2019-20 may also have the following implications:

- The government has announced a tax exemption on unsold housing units for two years.
- Also, the tax on notional rent on second self-occupied houses have been eliminated which will help in increasing demand for second homes.
- According to Nimish Gupta, MD, RICS South Asia,

'Affordable housing continues to get an impetus with benefits under Sec 80(i)BA being extended for one additional year, for housing projects approved till the end of 2019-2020. Homebuyers will also benefit from the rollover of capital tax gains being extended to investment in two residential houses, for an individual having capital gains up to Rs 2 crore'

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