

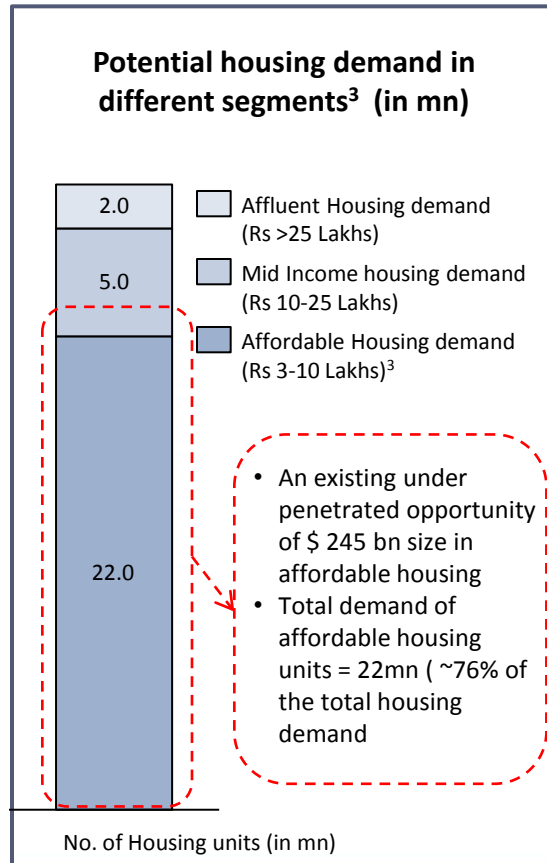
# The Indian affordable housing sector presents an attractive investment opportunity



An attractive sector driven by strong fundamental demand – large low income population, population growth, urbanization and increasing trend towards nuclear families

Several supply & demand side challenges were responsible for the under-development of affordable housing sector in the past

Rapid urbanization leading to huge demand - supply gap, increased access to LIH housing finance and favorable regulations/ technological advances have mitigated these challenges & created opportunities for super-normal returns



## Supply Side

### Developers' lack of interest resulting from:

- Low absorption rate due to insufficient mortgages to LIG<sup>1</sup> segment
- High cost of construction/land acquisition because of
  - Lack of low cost construction techniques
  - Delays in regulatory approvals

## Demand Side

### Home financier's lack of interest because of:

- Absence of Government interest subsidies aggravating the problem of low creditworthiness of LIG borrowers
- Lack of alternative credit appraisal methods

### Buyer's lack of interest due to:

- Lack of infrastructure in sub-urban areas
- Poor quality of homes & increasing pricing

- Rapid urbanization in the last decade resulting in a huge demand supply gap in LIH segment
- Increased access to **formal LIH housing & advent of specialized LIH financing** leading to better affordability

## Supply Side Revival

### Developers

- Tax incentives, speedy approval of LIH projects, provisioning of additional FSI and creation of SRZs<sup>2</sup>
- Emergence of low cost construction techniques (e.g. prefabrication, form etc.)

## Demand Side Revival

### Home financiers

- Interest subsidies on home loans leading to low default rates

### Buyers

- Government improving sub-urban infrastructure
- Good quality of homes at affordable prices

1) Low Income Group 2) Special Residential Zones 3) Source: Monitor group report; Price ranges for different housing segments are based on the research conducted by Monitor group in 2009 and is expected to have shifted upwards since then

# Sector snapshot

## Demand for affordable housing (Low Income Housing)

- India faces enormous demand of 22 mn LIH units; LIH to account for 80% of total housing demand and drive the Indian realty sector
- Relatively low cyclical risk due to inelastic demand
- Large low income population, booming economy & favorable policies are the growth drivers for LIH demand

## Supply of affordable housing (Low Income Housing)

- Low supply of affordable housing units, demonstrated by a growing demand-supply gap in this segment
- Organized players still focused on premiums of affluent housing against the volumes offered by LIH housing
- Move towards favorable FDI/other policies; Provides an early mover advantage for existing players in LIH segment

## Government policies and regulations

### Demand side regulations

- PPP<sup>1</sup> model with financiers to improve demand
- Interest subsidies on home loans for LIH units (e.g. 1% subsidy by central govt., 5% by Tamilnadu state govt.)
- Government improving infrastructure to suburban areas

### Supply side regulations

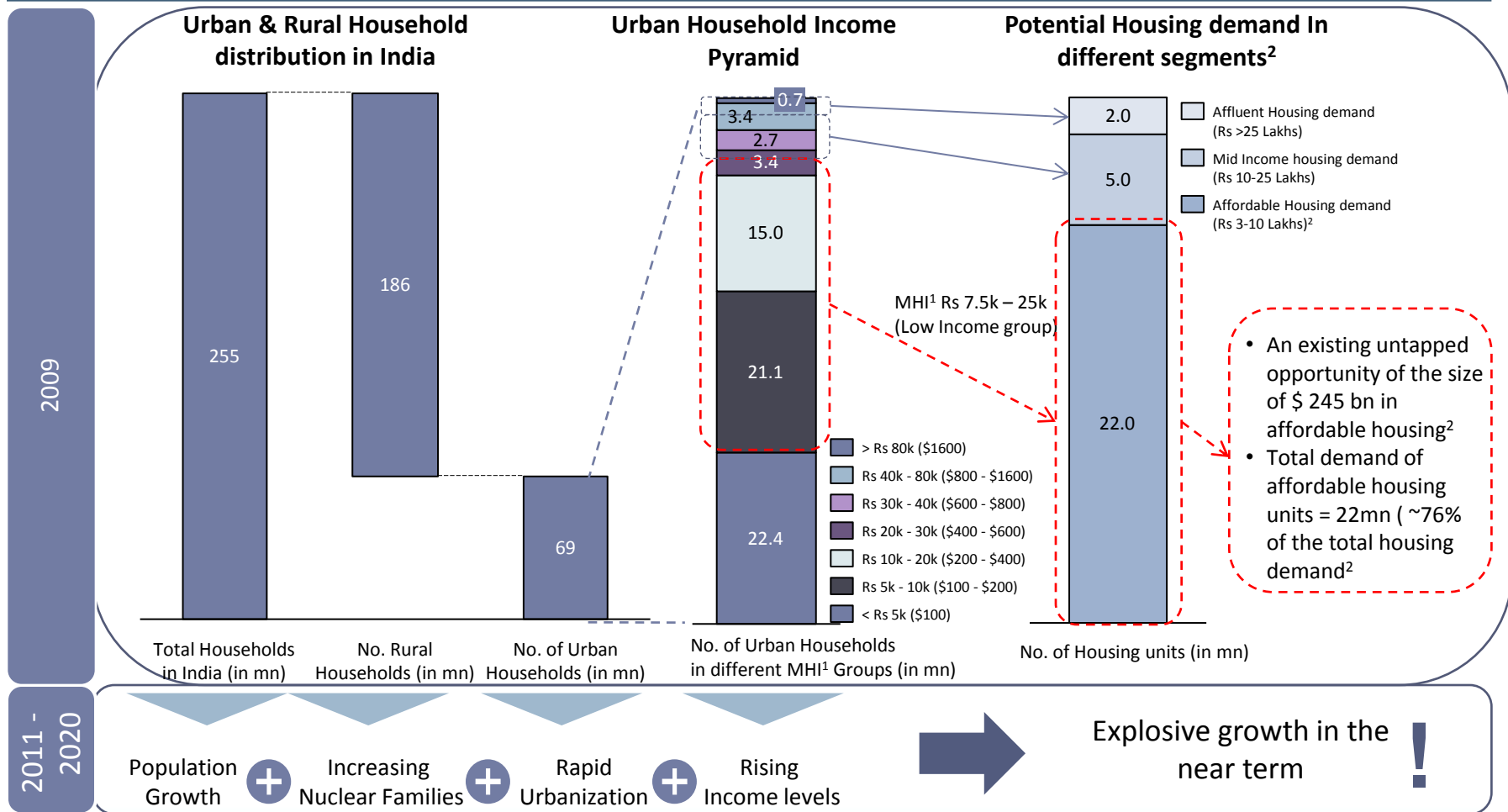
- Speedy approvals of housing projects
- Move towards making profits from LIH projects tax free
- Provision of additional FSI<sup>2</sup> for LIH projects
- Creation of Special Residential Zones (SRZ)

## Other players enabling robust functioning of the ecosystem

- Increasing private/institutional capital inflow in LIH developers/financiers/construction firms
- Fast maturing **LIH/home improvement financing** from MFIs (e.g. Janalakshmi, Ujjivan and Asirvad) & specialized micro housing finance firms (e.g. MHFC, Fullerton and GRUH)
- Increased focus on LIH financing from commercial banks (e.g. SBI, PNB and Axis) & large housing finance institutions (e.g. HDFC and Dewan)
- Growing no. of **firms with low-cost housing enabling technologies** (e.g. Sterling, Anmlex koller, Mivan, Mascon)

# An attractive sector driven by strong fundamental demand

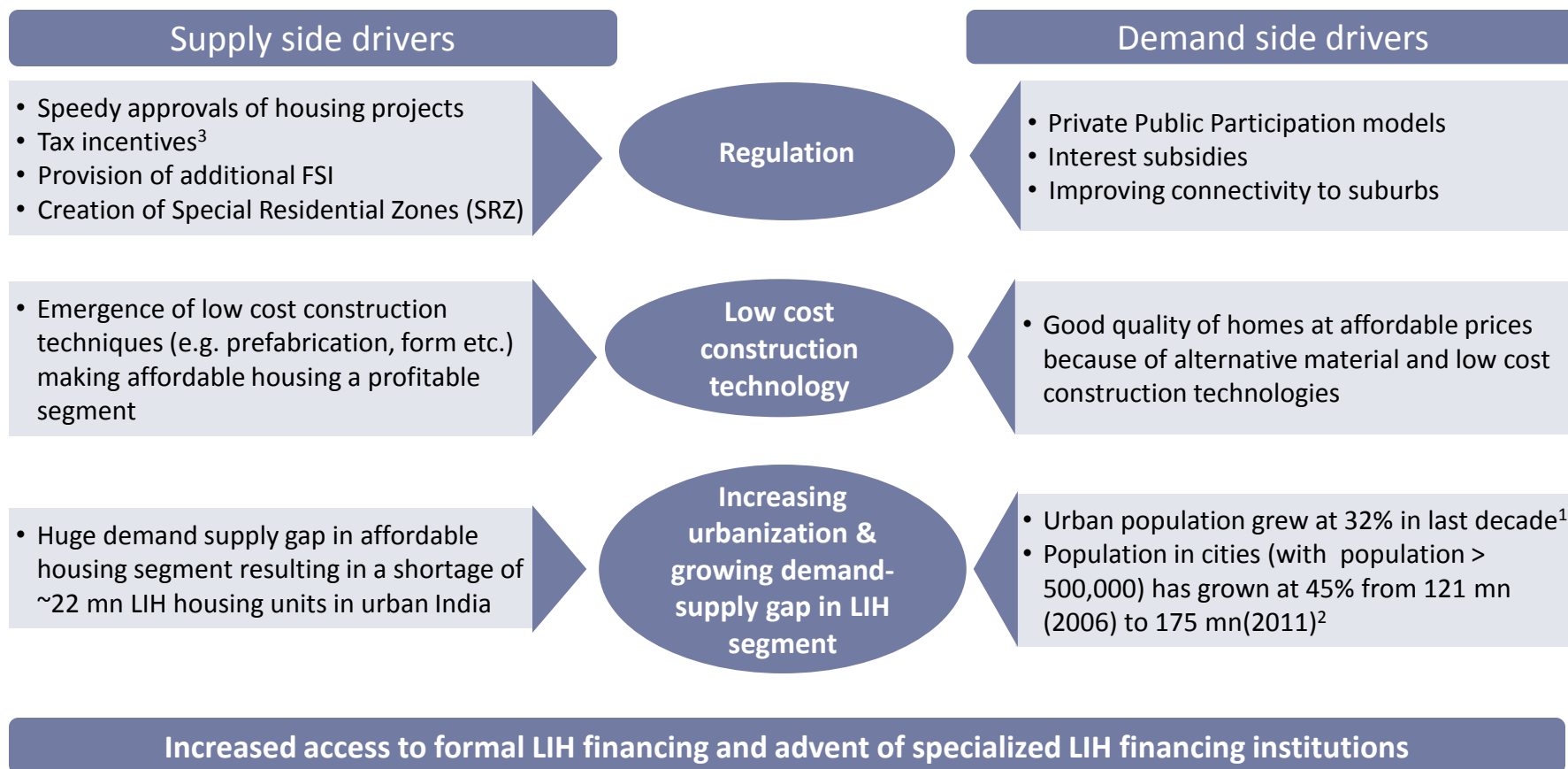
Existing untapped opportunity of the size of \$ 245 bn with a potential demand of 22 mn low income households – expect to grow multifold in the next decade driven by population growth, increasing nuclear families & urbanization



1) Monthly Household Income 2) Source: Monitor Delliote Report prepared in 2009; Price ranges for different housing segments are based on the research conducted by Monitor group in 2009 and is expected to have shifted upwards since then

# Multiple favorable factors are breaking the barriers and paving the way for explosive growth

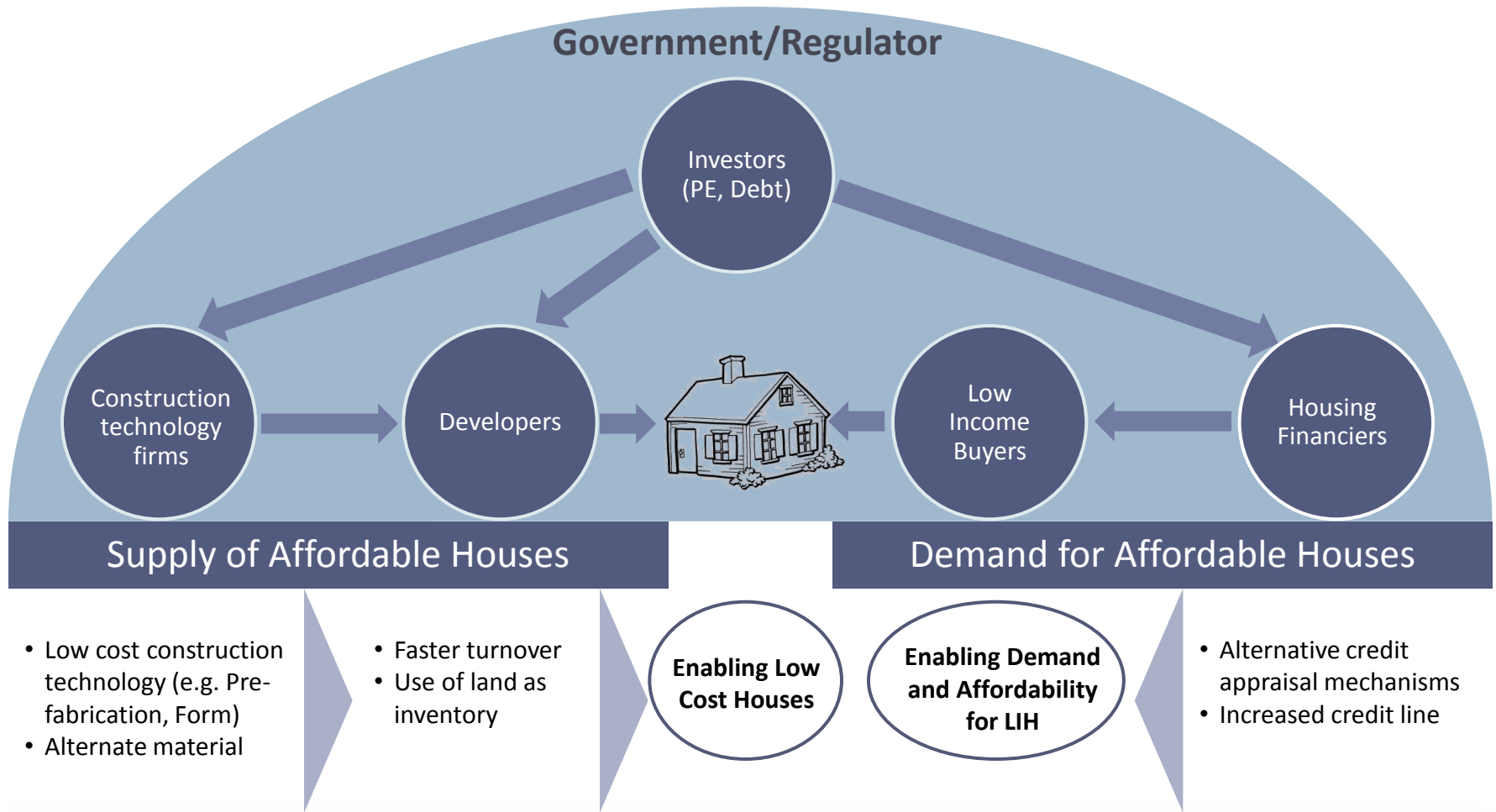
Growing demand-supply gap in LIH segment, increased access to formal LIH financing & advent of specialized LIH financing institutions coupled with favorable regulations have helped in overcoming these challenges



1) Source: censusindia.gov.in 2) [www.demographia.com](http://www.demographia.com) 3) Proposed in 2011 budget; Source: <http://timesofindia.indiatimes.com/home/union-budget-2011/Union-Budget-2011-FM-pushes-for-affordable-homes-full-tax-rebate-to-builders/articleshow/7592516.cms>

# Resulting in a fast maturing affordable housing eco-system ...

A coherent interplay of construction technology firms, housing developers, investors and housing financiers under the regulatory umbrella has created an ultra-positive outlook for affordable housing sector



# ... backed by a growing number of housing finance companies

Apart from new housing finance companies, a large number of established financial services institutions/banks have also entered into affordable housing finance market

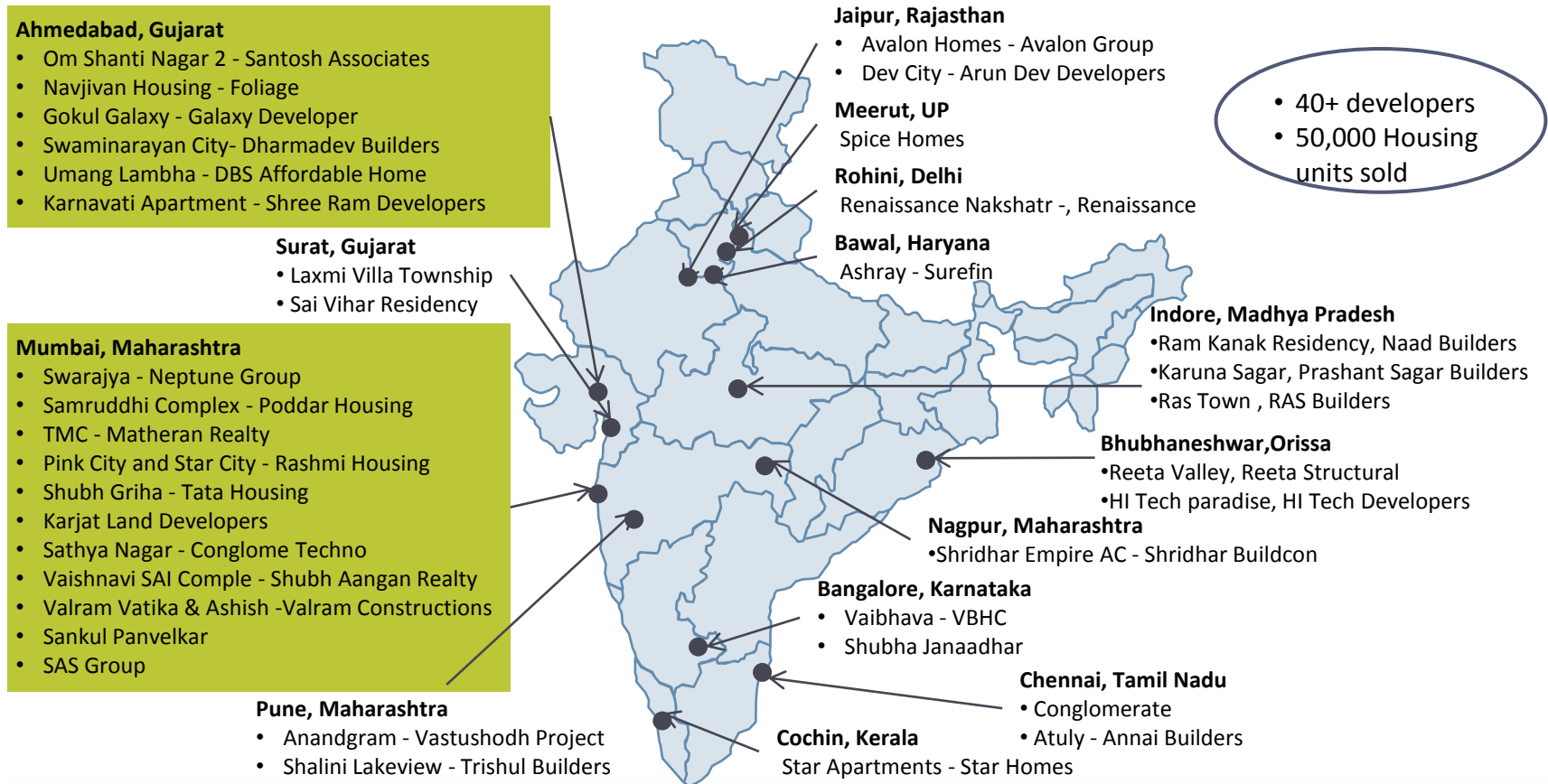


Source: Above diagram has been mainly sourced from Monitor Delliote report, Feb 2011

# ... and growing footprints of developers across India

More than 40 developers were actively involved in LIH project development across multiple cities in India since 2010-11 and at least ~30,500 units have been launched since June'11 across the country

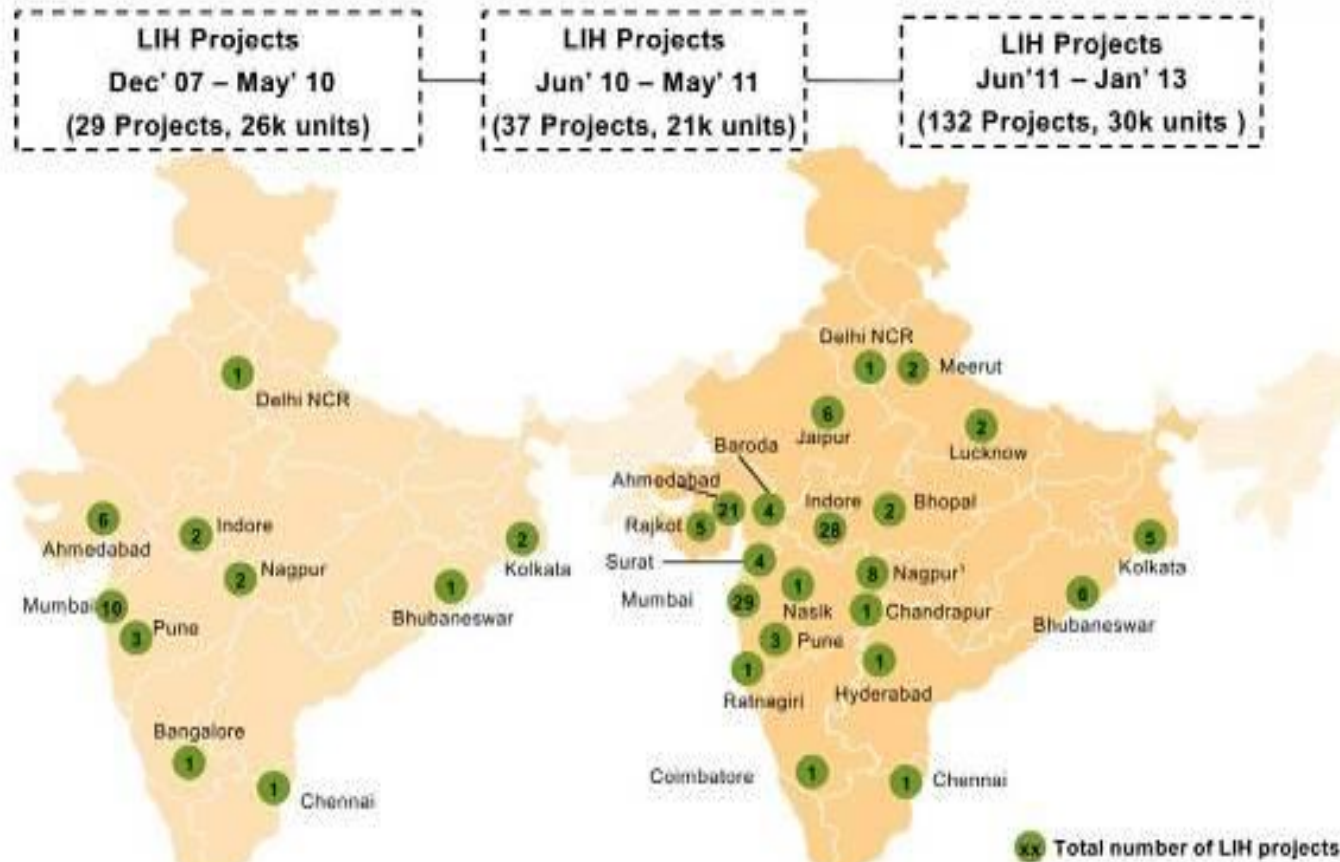
## Affordable Housing Projects – Market Map<sup>1</sup>(2012)



Source: Monitor Delloite Report, July 2011. The report is based on sample survey and actual situation may differ. Further, This represents a WIP map of LIH supply in various cities in India based on research & findings of Monitor Delloite from leveraging their network. For a detailed information, please refer to Monitor group report, Feb/July 2011



# Increase in LIH Segment by 2013



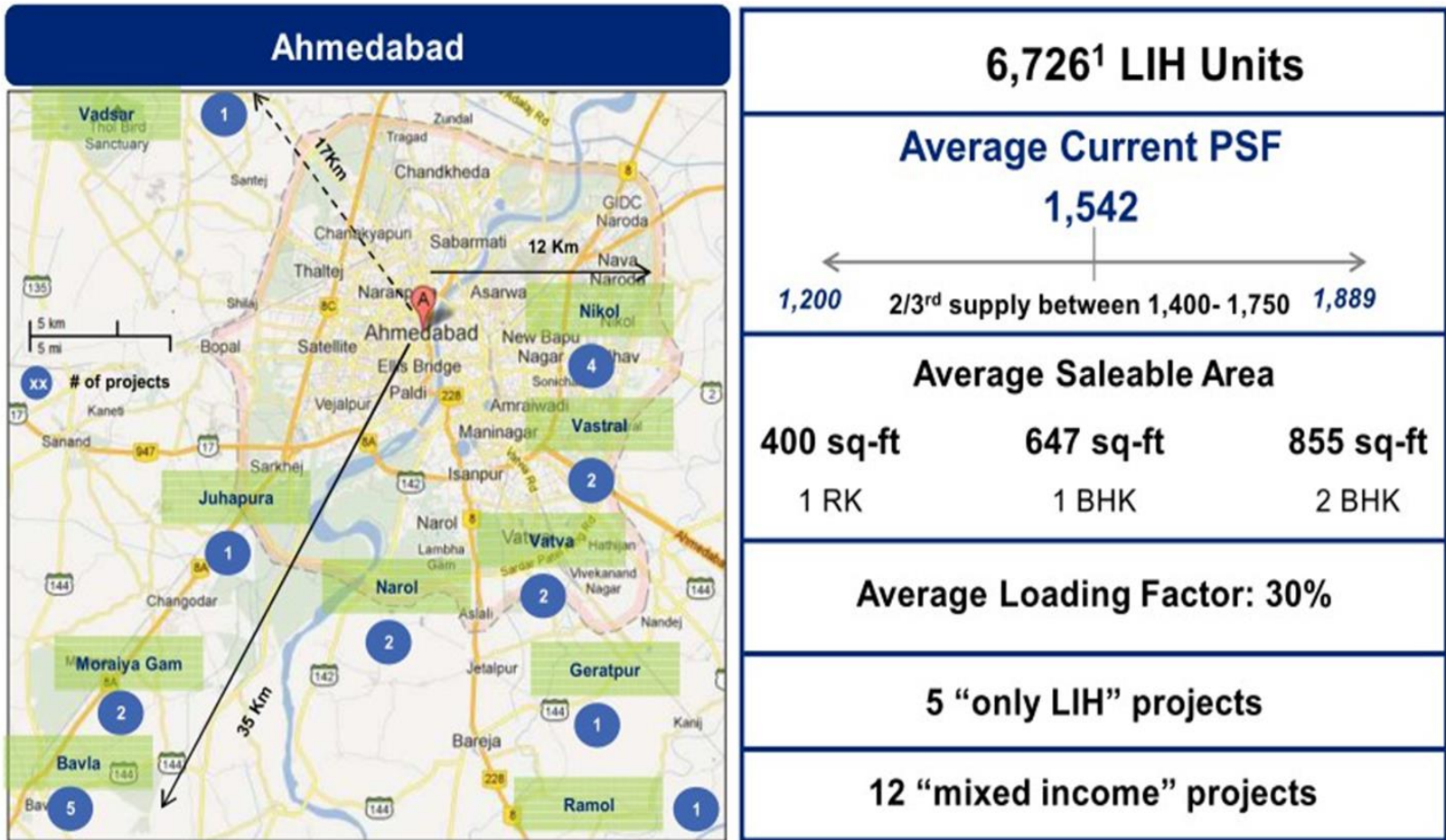
Note: The two maps correspond to Dec '07-May 10 and June'11-Jan'13 periods respectively. <sup>1</sup> Nagpur includes one project from Amravati  
 Source: Building Houses, Financing Homes, World Bank Study by MIM, Eight City LIH Scan and State of the Market Study by MIM



In Ahmedabad LIH supply emerging on new ring roads and main arteries which are accessible from city center.



Some development is also being seen near industrial areas.



Note: 1: Includes 4 projects for which complete information was not received; In-depth analysis has been done for 17 projects totaling 4,713 units

## Government and other organizations playing an increasing active role but greater activity and support required

### Current situation

- Inadequate EWS/LIG housing supply built by governmental agencies
- Insufficient funds to provide housing for all
- Prevalence of slums
- Unplanned informal housing leading to poor living conditions

### Key government efforts

- ~34000<sup>1</sup> EWS and LIG units launched under Rajasthan's affordable housing policy
- Gujarat government promoting LIH through private participation and zoning (e.g. 2km on either side of Ahmedabad's ring road reserved for LIH)
- Orissa government's recent engagement with private developers to come up with a policy for LIH for "controlled" and "market-based" scenarios
- Ghaziabad providing fast approvals and proposing to change policy to promote privately built low-income housing
- MoHUPA proposing to change policy to promote privately built low-income housing and to increase financial incentives for low-income customers

### Other organizations' efforts

- NHB, funded by KfW, DFID and WB, providing financing to boost LIH supply
- NHB sharing information through meetings and conferences to raise awareness of LIH
- DFID providing capability building / advisory support to promote LIH supply

<sup>1</sup> Presentation by Senior Town Planner, Government of Rajasthan