



Recommendations of 11th National Convention of NAREDCO on "Sustainable Housing for Masses" held on 7 – 8 December 2012, at Vigyan Bhawan, New Delhi

The National Real Estate Development Council (NAREDCO), organized its 11th National Convention on Sustainable Housing for Masses on 7 – 8 December 2012 at Vigyan Bhawan, New Delhi. The Convention received overwhelming response. Approximately 800 participants from across the country attended the Convention. The participants of Convention included Central and State Govt. officials, real estate developers, institutional and retail investors, marketing personnel, consultants, academicians, students, housing finance institutions, research & analysis agencies, trade bodies etc. Approximately 50 senior officials from various departments of State and Central Governments were also present and made significant contributions.

The Convention was inaugurated by Shri Pranab Mukherjee, Hon'ble President of India. Shri Ajay Maken, Hon'ble Minister of Housing and Urban Poverty Alleviation, Govt. of India, was Guest of Honour. Hon'ble President called upon Govt. and private sector to work together and create environment and support system favourable for the development of urban infrastructure and housing to meet the growing need of existing and new migrants as urbanization was unstoppable in fast growing economy like India. Hon'ble Minister of Housing and Urban Poverty Alleviation advised private sector developers to take on affordable housing construction on mass scale to improve profitability and informed that his Govt. was serious on bringing more transparency and accountability in the sector through legislative and regulatory mechanisms.

Session 1 on Urban Planning – Need for New Approach was chaired by Shri Navin M Raheja, President, NAREDCO. Dr. Isher Judge Ahluwalia, Chairperson, ICRIER, Shri Susheel Kumar, Joint Secretary (Housing), Govt. of India, Dr. G S Sandhu, Principal Secretary, UDH & LSG, Govt. of Rajasthan, Shri Raj Singh Gehlot, Director, Ambience Developers and Infrastructure, Shri Ashok Soloman, Chairman, Chintels India Ltd., Shri R K Arora, CMD, Supertech Ltd. and Shri Sanjeev Dasgupta, President, ICICI Venture Funds were the speakers.

Session 2 on Challenges 4G-3R (Growth, Governance, Graft, Grievances and Rationalisation, Regulation and Redressal) was chaired by Justice S N Dhingra (Retd.), Member, Competition Commission of India. Shri Getamber Anand, MD, ATS Infrastructure Ltd., Shri J C Sharma, Vice Chairman & MD, Sobha Developers Ltd., Col. Arun Gupta, Executive Director, TDI and Shri Arun Mohan, Senior Advocate, Supreme Court of India were the speakers.

9Session 3 on Balancing Environment with Urban Growth was chaired by Shri Pranav Ansal, Vice Chairman & MD, Ansal API. It was a Panel Discussion and Panelists were Dr. Sudhir Krishna, Secretary, Ministry of Urban Development, Govt. of India, Shri Rajesh Arora, Vice Chairman, Arora Group, Shri P K Tripathi, President, Unitech Ltd., Shri Sunil Mantri, Chairman, Mantri Realty Ltd., Shri Rajan N Bandelkar, Director, Raunak Group, Shri Vidur Bhardwaj, Director, 3C Universal, Shri Tanmoy Tataghat, Director – Environmental Design Solutions, Shri R Damodaran, Director, Smarter Planet Solutions, ISA, IBM India Pvt. Ltd.. A Memorandum of Understanding (MoU) between NAREDCO and Indian Green Building Council (IGBC) for promoting Green Building movement in India was also signed.

Session 4 on Housing for Masses was chaired by Shri Sunil Mantri, Vice President, NAREDCO. Shri V P Baligar, CMD, HUDCO, Shri Ramamurthy, Director (Project), IREO Ltd., Shri P S Jayakumar, MD, Value and Budget Housing Corporation, Shri Abbas Master, CEO, Saifee Burhani Upliftment Trust, Shri V Satyanarayana, CEO, Aarusha Homes, Shri S B Dangayach, MD, Sintex Industries Ltd., Shri Neeraj Bansal, Director, KPMG India, Shri R Karikal Valaven, Secretary (Housing), Govt. of Andhra Pradesh and Shri S P Tripathi from Supertech Ltd. were the speakers.

Session 5 was a Panel Discussion in English on ‘Enabling Supply side Sustenance for Converging the Gap in Affordable Housing’, moderated by Ms Manisha Natrajan, Senior Editor, NDTV Profit. Panelists were Shri Navin M Raheja, CMD, Raheja Developers Ltd., Shri Anuj Puri, Chairman & Country Head, Jone Lang LaSalle, Shri R V Verma, CMD, NHB, Shri P S Jayakumar, MD, VBHC, Shri S K Chaudhary, Sr. ED, HUDCO Ltd., Shri Rajesh Arora, Vice Chairman, Arora Group, Shri Sunil Dahiya, Sr. VP, NAREDCO, Shri Ashok Khurana, Member Engineer, DDA and Shri Sandeep Ahuja, Sr. Vice President, Tata Housing.

Session 6 was also a Panel Discussion in Hindi on ‘Housing for Masses’, moderated by Shri Amish Devgan of Zee Business. Panelists were Shri V P Baligar, CMD, HUDCO, Shri Ashok Khurana, Member Engineer, DDA, Shri Anuj Puri, Chairman & Country Head, Jones Lang LaSalle, Shri Sandeep Ahuja, Sr. Vice President, Tata Housing, Shri Sunil Mantri, Chairman, Mantri Realty Ltd., Shri Navin M Raheja, CMD, Raheja Developers, Shri Sunil Dahiya, MD, Vigneshwara Developers and Shri Rajesh Arora, Vice Chairman, Arora Group.

Session 7 on ‘Fund Raising in Real Estate’ was chaired by Shri Sunil Dahiya, Sr. Vice President, NAREDCO. Shri R Karikal Valaven, Secretary, Housing Department, Govt. of Andhra Pradesh, Shri Rohit Singh, Vice President, Kotak Mahindra Bank Ltd., Shri Jimmy Olsson, Aldia Capital, Shri S P Tripathi, CEO, Supertech Precast Technologies Pvt. Ltd. and Shri Jayesh Kariya, Head Real Estate, KPMG were the speakers.

Session 8 on ‘Skill Development and Technology Upgradation’ was chaired by Shri Sachin Sandhir, MD, South Asia, RICS. Shri Parag Majmudar, Chairman, Ritman Infra Ltd., Shri Harpal Singh, CMD, Synergy Thrislington and Shri Alok Agrawal, Gamut Infosystems Ltd. were the speakers.

Valedictory Session was chaired by Shri Navin M Raheja, President, NAREDCO and Co chaired by Shri Sunil Dahiya, Sr. Vice President, NAREDCO. Shri Neeraj Bansal, Director Real Estate, KPMG presented the important outcomes of the Convention.

Convention Background

India's urban population registered a decadal growth of 32 percent rising from 285 million to 377 million between 2001 and 2011¹. By 2050, 900 million people will be living in Indian cities². The rapid pace of urbanisation owing to rural–urban migration is putting enormous strain on the urban infrastructure in the cities. As the urbanization continues, the major concern for India's urban planners is going to be the massive urban housing shortage, primarily for Economically Weaker Sections (EWS) and Low Income Groups (LIG). The total housing shortage estimated after 2011 census is 18.78 million³ predominantly for EWS and LIG.

Encouraging private sector participation in affordable housing, traditionally the domain of the government, could provide the answer to India's urban housing predicament. However, as things stand to-day, the real estate sector is facing considerable headwinds. Issues continue to persist in land availability and pricing, project approval and financing and mortgage loans for EWS and LIG, which make affordable housing projects unviable for private developers.

Making affordable housing work in India necessitates the active involvement of all the stakeholders. State and Central Government support in the form of liberal regulations and inclusive growth policies could provide the means for harnessing the full potential of affordable housing in the country. Steps such as establishment of single window clearance mechanism for project approvals and formulation of innovative micro mortgage lending models could encourage private sector involvement. The developers, on their part, may have to adopt innovative and low-cost technologies to deliver cost effective affordable houses.

Affordable Housing –Need of the hour

The rural–urban migration, post economic liberalisation, has resulted in rapid rise in India's urbanization which now stands at 31.2 percent⁴. The trend of migration from rural to urban areas is likely to continue as, during 2012-2050 the urbanization is likely to grow at a CAGR of 2.1 percent – double that of China⁵.

While concentration of people in urban areas has grown, there has also been an increase in the number of people living in slums and squatter settlements. Skyrocketing prices of land and real estate in urban areas have induced poor and economically weaker sections of society to occupy the marginal lands typified by poor housing stock, congestion and obsolescence. As a result, a substantial housing shortage looms in Urban India and a wide gap exists between the demand and supply of housing, both in terms of quantity and quality.

According to a report submitted by a technical committee to the Ministry of Housing and Urban Poverty Alleviation (MHUPA), India's urban housing shortage is estimated at nearly

¹ Census of India 2011; KPMG in India analysis

² Urban Infrastructure in India, FICCI, October 2011

³ Report of the Technical Urban Group (TG-12) on Urban Housing Shortage 2012-17, Ministry of Housing and Urban Poverty Alleviation, September 2012

⁴ Census of India 2011

⁵ Opportunities in an Urbanizing World, Credit Suisse, April 2012

18.78 million households in 2012⁶. It is not surprising that the economically weaker sections (EWS) and low income groups (LIG) constitute over 96 percent of this shortage as the majority of the housing stock built across urban India is beyond their affordability.

Traditionally, the onus of supplying affordable housing has been with public sector entities such as State Housing Boards and Development Authorities. However, in the last five years, the constructive policy initiatives of the Govts. have encouraged private developers to launch projects in the affordable segment. Such instances, however, are few as affordable housing development continues to be an unviable proposition for the developers.

Given the magnitude of housing shortage, it is clear that the lone effort of public sector and a few private players would not be sufficient to bridge the gap. If India is to achieve the goal of “Affordable Housing for All”, there is a need to realistically address the constraints faced by private developers and formulate policies that encourage their participation.

Real Estate Developer’s Constraints

A recent joint study⁷ by KPMG and NAREDCO has highlighted the following key challenges which are proving to be the main impediments for private participation in affordable housing development:

Unavailability of Urban Land

High population density in urban areas has triggered huge demand for urban land. There is growing need to revisit the government regulations which have created artificial land shortage and pushed up land prices in India. Without changes in development norms, the limited land available in urban areas will make it unviable for developers to take up affordable housing projects. Further, the substantial non-marketable urban land used by Government-owned entities could also be used more efficiently. A number of these land parcels are in centrally located areas. Authorities should make optimum use of these land parcels to prevent on-going proliferation of slums and squatter settlements, as also create additional housing stock for new migrants.

Delay in Project Approvals from Multiple Authorities

Estimates reveal that real estate developers are required to procure approvals from about 50 departments of central and state governments and municipal bodies. It has been estimated that delays in project approval adds 25-30 percent to the project cost⁸. Better co-ordination between multiple authorities dealing with permissions/approvals will encourage real estate developers to invest in the affordable housing segment. Currently, it takes nearly two to three years⁹ for a developer to commence construction after entering into an agreement for land purchase.

⁶ Report of the Technical Urban Group (TG-12) on Urban Housing Shortage 2012-17, Ministry of Housing and Urban Poverty Alleviation, September 2012

⁷ Bridging the Urban Housing Shortage in India, KPMG–NAREDCO, December 2012

⁸ Achieving Sustainable Growth in Realty, KPMG–CREDAI, December 2011

⁹ ‘Corruption and Transparency in Realty - The Reality’, infrawindow.com

Rising Construction Cost

Unlike premium residential projects where pricing is largely driven by land cost, pricing of affordable housing is primarily driven by the cost of construction. Construction costs nearly 50 to 60 percent of the selling price in affordable housing projects as compared to 18 percent to 20 percent¹⁰ in luxury projects. Contrary to land, where prices decline exponentially as projects move away from centrally located to peripheral areas of a city, fall in construction cost is gradual from luxury to low-income housing projects. Hence, construction cost minimization is vital for the viability of affordable housing projects.

Raw materials, such as steel, cement, sand, bricks, etc, have witnessed price escalation of 20-50 percent¹¹ in the recent past. Owing to the success of the National Rural Employment Guarantee Act (NREGA), the labour shortage in construction has also risen, impacting the construction cost due to rise in wages.

Financing Constraints of Low Income Groups

The current financing mechanism in the country is tilted towards servicing MIG & HIG segments. As a result, households falling under LIG and EWS categories find it difficult to secure formal housing finance. Commercial banks and other traditional means of housing finance typically do not serve low-income groups, whose income may vary with crop seasons, or is below the 'viable' threshold to ensure repayment, or who cannot provide collateral for loans. Further, housing finance companies (HFCs) are unable to serve the LIG and EWS categories owing to their inability to produce documents required for loan sanction. The loan market of INR 3-10 lakh is estimated at INR 1,100,000 crore¹². Despite this, less than 20 percent of the total INR 55, 200 crore worth of housing loans disbursed by HFCs in FY2011 were in the loan bracket of INR 3-10 lakh¹³.

Limited Financing Avenues for Developers

Besides buyers, real estate developers are also grappling with funding challenges. Banks have curtailed their exposure to real estate citing risk perception, leaving them to high cost finance options such as Non-banking Financial Companies (NBFCs) and Private Equity (PE) fundings as the only source of finance. Moreover, high cost of fund coupled with waning demand has disrupted the cash flow of developers forcing them to defer project launches, impacting supply.

Need to Relook at Laws and Building Guidelines

There is a growing need to revisit regulations such as Rent Control Act, which is proving to be a deterrent in the development of rental housing and redevelopment of areas with old properties. By revisiting development control and planning norms and old & archaic local

¹⁰ 'Urban housing shortage rising in India', The Times of India, 5 July 2012

¹¹ Achieving Sustainable Growth in Reality, KPMG-CREDAI, December 2011

¹² Micromortgages: A Macro Opportunity in Low-Income Housing Finance, Monitor Inclusive Markets, October 2010

¹³ Report on Trend and Progress of Housing in India, National Housing Bank, 2011; KPMG in India analysis

bodies building bye laws, many issues restricting supply and affordability could be addressed and planning made more realistic.

Lack of Skilled Manpower

India's real estate sector continues to grapple with the problem of skilled manpower shortage. This shortage can have an adverse impact on the delivery and cost of affordable housing projects. There is, therefore, a need to take up skill upgradation of construction workers on a large scale through organized and on job trainings, to cater for future demand of the sector.

Disputable Taxation Regime

Taxability of real estate transactions in India has always been a matter of dispute and litigation because of multiplicity of taxing agencies. Union Government, State Governments and Local Authorities are empowered to impose various indirect taxes on the developers¹⁴. There is a need to clarify whether 'the real estate property' is a product or service, then only the developers would be spared from the current double taxation regime. The Government also needs to revisit the non uniformity in stamp duties across the country. The stamp duty to be paid at the time of execution of the underlying instrument varies from 5 percent to 15 percent¹⁵ of the value of property in different States.

Recommendations – The Way Forward

Urban Land Planning – Make Affordable Housing a Priority

Holistic and inclusive urban planning with focus on land-use optimisation would catalyse affordable housing development in urban areas. Therefore, there is a need to integrate socio-economic planning with spatial planning. Appropriate zoning for affordable housing must be a mandate for Urban Local Bodies (ULBs) and Urban Development Departments (UDDs) in the master plans. The links between housing location, livelihood and transport can no longer be ignored. The country could learn from Singapore example, where public transport planning is linked with housing.

Additionally, there is a scope for better utilization of large parcels of land owned by government entities as the land parcels are centrally located and well connected to the existing infrastructure. These could be pooled and utilised for constructing affordable houses. Computerization of land records would enable better monitoring of the land bank available with states and cities. Subsequently, an asset management plan can be used to earmark land for affordable housing projects.

¹⁴ KPMG in India analysis

¹⁵ Achieving Sustainable Growth in Reality, KPMG-CREDAI, December 2011

Private Sector Development – Make it a Viable Proposition

Private real estate developers would participate actively and aggressively in this segment if it is made a viable proposition for them. A strong regulatory response coupled with adequate incentives and subsidies could make the economics work. Following are important recommendations in this regard:

Fast Track Approvals for Affordable Housing Projects

State Governments should consider introduction of single window online clearance mechanism for affordable housing projects which would facilitate clearance of projects within defined timelines. Furthermore, there is a need to simplify procedures and processes for land acquisition and conversion of agricultural land for urban uses.

Under its Affordable Housing Policy, 2009, the Rajasthan Government has introduced a fast track approval in 30 days for affordable housing projects¹⁶. Similar efforts have been made by cities such as Indore, Pune and Hyderabad to overcome systemic hurdles in building permit processes. The ‘Green Channel’ initiative of Greater Hyderabad Municipal Corporation (GHMC) helps in incentivizing development, eases grant of building permissions and introduces transparency and accountability¹⁷. The adoption of the automated building plan approval procedure by the Pune Municipal Corporation has reduced the time required for sanctioning building plans to 21 days from the earlier 45-50 days¹⁸. Hence, to expedite affordable housing development, establishment of a ‘single window’/ fast track/online approval procedure must be a priority for other state governments as well.

Floor Space Index (FSI)/Floor Area Ratio (FAR) Incentive

To augment supply of affordable housing, State governments should use FSI as tool. This will also enable private developers in bringing down the cost of land per housing unit. Land scarcity in urban areas has driven International cities such as New York and Shanghai to have an FSI of over 10¹⁹. Given this, there is huge scope for raising the FSI in Indian cities, which have an average of 2²⁰.

Rajasthan Govt. allows 0.5 percent additional FAR for timely completion²¹ and Transfer of Development Rights (TDR) which allows use of unutilized FSI in other projects, in addition to doubling the normal FAR for Affordable Housing projects.

¹⁶ Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December 2012

¹⁷ Building Permissions Within 4 Days, www.fullhyd.com, 20 October 2010

¹⁸ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

¹⁹ Higher FSI not enough, better infra a must: Builders, Business Standard, 9 April 2012

²⁰ Exclusive! Minister hints at more FSI, says it will rid cities of slums, DNA, 28 November 2011

²¹ Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

Rajasthan model could be emulated by other states. To ensure that the extra FSI does not choke the existing infrastructure, developers could be given the responsibility to upgrade them or authorities could charge extra EDC for doing the same.

Waiver of Fees and Charges

The Rajasthan and Andhra Pradesh States provide several concessions on development related charges to encourage private affordable housing development. While Rajasthan offers waiver of External Development Charges (EDC), agriculture land use conversion charges and building plan approval fee²², Hyderabad Master Plan provides waiver of fees and other charges for affordable housing developments to the tune of 25 percent for LIG housing and 100 percent for EWS housing²³.

EDC charges are quite high in certain Indian states and render many projects unviable²⁴. Concessions on development related charges by State Governments could give fillip to affordable housing development and attract more private investments.

Service Tax Exemption

Under the ‘Affordable Housing in Partnership (AHP)’ scheme, construction services relating to residential dwellings and low cost mass housing upto 60 square meters carpet area are exempted from payment of service tax²⁵. The Union Government must consider extending this benefit to houses of upto 60 sq.m carpet area developed by private developers on private land. It is estimated that such a concession could lower the project cost by 3.5–4.5 percent²⁶.

Provide Infrastructure Linkages by Using Proceeds from Sale of Land

Social upliftment could be achieved through affordable housing only when the required infrastructural linkages are provided by the State Governments. Parallel development of physical infrastructure like road, drainage, transport, water supply, sewerage disposal, electricity etc and social infrastructure like schools, hospitals and commercial centres etc. are critical for the success of such projects.

To ensure parallel development, many countries use proceeds from sale of land to provide infrastructure linkages. A case in point is Hong Kong where parcels of public housing land are tendered to qualified private sector developers and the proceeds from these parcels are used to cross subsidise the associated infrastructure and transit investments²⁷.

²² Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

²³ Affordable Housing in India, Jones Lang LaSalle, June 2012

²⁴ Will India Be A Fallen Angel, The Times of India, 1 December 2012

²⁵ Union Budget to provide impetus to affordable Housing : Kumari Selja, Press Information Bureau, 16 March 2012

²⁶ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

²⁷ Making Affordable Housing Work in India, RICS, November 2010

Alternate Sources of Funding for Developers

As mentioned earlier, in the current scenario developers are dependent on private sources of funding. This constrains them from investing in affordable housing projects because of high cost of funds. Therefore, there is a need to develop new financing avenues for affordable housing projects.

Although Foreign Direct Investment (FDI) Policy on Housing permits 100% foreign investment, there is very little investment in affordable housing segment. Therefore, there is a need to liberalise the policy further to encourage FDI in affordable housing projects. Similarly, more needs to be done to encourage the use of External Commercial Borrowings (ECBs) for low cost affordable housing projects. Below are some of the measures which could encourage FDI and ECB in Low Cost Affordable Housing Projects:

Financing Mode	What could be done?
FDI Policy on Housing	<ul style="list-style-type: none">• The current requirement of minimum built up area of 50,000 sq.m could be brought down to 20,000 sq mtr.• The minimum investment for joint ventures with Indian partners could be brought down from the current USD 5 million to USD 1 million.
ECB for Low Cost Affordable Housing Projects	<ul style="list-style-type: none">• The aggregate amount of USD 1 billion appears to be small. Hopefully the limit will be increased in future to meet the growing demand of the sector.• The two-level approval procedure i.e. first from the National Housing Bank (NHB) and thereafter from Reserve Bank of India (RBI) needs to be simplified and suitable time limits for processing of applications by the NHB and RBI fixed to facilitate quick and successful implementation of the scheme.

Source: KPMG Analysis

Infrastructure Status

Affordable Housing and Integrated Township development would be essential to cope with the urbanisation pressure faced by the country. However, despite being an essential social infrastructure requirement, Affordable Housing is yet to be included in the Harmonized Master list of Infrastructure. Granting Infrastructure status would assist in opening certain additional funding avenues for the affordable housing segment in addition to direct tax benefits. For example, such a move would attract funds from insurance companies, which are mandated to invest 15 percent of their funds in social and infrastructure sector (as per IRDA regulations)²⁸ as also qualify for raising fund through tax free infrastructure bonds.

²⁸ Bridging the Urban Housing Shortage in India, KPMG–NAREDCO, December 2012

Direct Tax Incentives

Section 80-IA

Affordable housing upto a carpet area of 60 sq.m should be brought under the purview of section 80-IA of IT Act 1961. The tax exemption available under sub-section (4) will incentivise private developers who would then be eligible for a deduction equal to 100 percent of the profits and gains derived from affordable housing projects for ten consecutive assessment years.

Section 80 IB (10)

Under Section 80 IB (10) of the IT Act, income tax deductions were available to developers, whose housing projects were approved on or before 31st day of March, 2008. The Government should consider reintroducing this tax exemption and make it applicable for projects sanctioned after 31st March 2008, at least till 2018. If need be, the size of the units eligible for the benefit could be limited to upto 60 sq.m²⁹, in line with the definition of affordable housing prescribed by the Affordable Housing Task Force.

Section 35 AD

It is also vital to streamline and liberalise the existing provisions of Section 35 AD of the IT Act to enable private developers to benefit from the tax deduction available on capital expenditure on Affordable Housing projects. The following illustration highlights the key provisions, issues and recommendations for Section 35 AD:

Tax Concessions for Affordable Housing under Section 35 AD of the IT Act

SN	Particulars	Provision/Issues/Recommendations
1	Provisions of Section 35 AD	<p>Section 35 AD of the Act allows deduction for capital expenditure (excluding expenditure on land/ goodwill/ financial instruments) incurred '<i>wholly and exclusively</i>' for the purposes of any <i>specified business</i> carried on by the assessee. The deduction is available subject to satisfaction of anti-abuse conditions.</p> <p>Under this section, if commencement of operation is on or after 1st April, 2011 but before 1st April, 2012, the deduction at the rate of 100 percent of the capital expenditure is available, whereas, if commencement of operation is on or after 1st April, 2012, deduction at the rate of 150 percent of the capital expenditure is available.</p> <p>Deduction under this section is available on happening of following event (whichever is later) (a) being the year in which the capital expenditure is incurred; or</p>

²⁹ Affordable Housing Task Force (AHTF) on "Promoting Affordable Housing", November 2012

		(b) being the year of commencement of operations.
2	Related provision : Section 73A of the IT Act	Any loss of the specified business is not allowed to be set off except against the profits & gains (if any) of any other specified business and to the extent such loss is unabsorbed, it shall be carried forward for set-off against profits & gains (if any) of other specified business in the following assessment years
3	Issues around Section 35 AD faced by Affordable Housing Developers	<ul style="list-style-type: none"> • Deduction is available to the assessee engaged in the specified business. Section 35 AD (8) (c) (vii) of the Act defines specified business to include developing and building a housing project. It is not clearly spelt out to say deduction would be available to developer only or it would be available to contractor where developer is not carrying out actual construction activities. <p>In redevelopment project, society acts as a developer and actual construction is undertaken by the contractor. In this scenario, whether deduction under this section would be available to construction contractor?</p> <ul style="list-style-type: none"> • The section provides for the deduction towards the pre-commencement capital expenditure only. • The loss of the specified business is allowed to be carried forward and set-off only against the profits & gains (if any) of any other specified business.
4	Recommendations	<ul style="list-style-type: none"> • Deduction should be available to companies engaged in constructing affordable housing projects using pre-fabricated and pre-cast or any other technology; • Deduction should be available to companies producing construction materials like blocks, panels, slab, walls, columns, toilet, staircase etc. used in construction of affordable housing projects using pre-fabricated and pre-cast or any other technology; • The loss of the specified business should be allowed to be set-off against the profits & gains of the business other than specified business.

Source: KPMG Analysis

Financial Empowerment of EWS/LIG Sections of the Society

Despite the sustained efforts of the Government, “Affordability” continues to be a concern for the target beneficiaries i.e. the EWS/LIG households. The following measures could help in demand boost and affordable housing development in the country:

Access to Micro Credit

Fundamental innovations are required in the traditional mortgage-lending model to help informal sector and self-employed people in LIG and EWS segment to avail housing loans. The Government could encourage effective financing through micro mortgages with the help of Self-Help Groups (SHGs) and other innovative financing mechanisms. This would ensure in making housing finance available to large sections of LIG and EWS who are deprived of mortgage loans from formal banking institutions. Flexible payment options should also be put into place, considering the fact that EWS/LIG households typically have variable income flows.

Stamp Duty Reduction

As opposed to other countries where stamp duty typically begins at 0 percent for low-value properties and gradually reaches 3 percent for high-value properties³⁰, stamp duty in Indian states vary from 5 percent to 15 percent³¹. To lower the final cost for the EWS/LIG sections, states such as Rajasthan, Madhya Pradesh (MP) and Uttar Pradesh (UP) have substantially reduced the stamp duty on EWS/LIG housing. While stamp duty in Rajasthan is INR 10 and INR 25 for EWS and LIG flats respectively³², in MP and UP INR 100 is charged towards stamp duty for EWS housing³³.

Priority Sector Lending

As mentioned earlier, housing credit continues to elude EWS/LIG household. No formal data is available at the national level to show the actual flow of bank credit to these sections. The Government and the RBI should, therefore, create a mechanism where banks are required to allocate certain portion of their loans and advances for the purpose of housing loans to EWS/LIG segments. The NHB can also take similar measures to ensure higher flow of credit from HFCs to the EWS/LIG sections.

Financial Literacy

Educational programs on financial literacy targeted at the EWS/LIG households could create more awareness and facilitate their decision making with respect to taking and repaying loans from formal establishments.

³⁰ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

³¹ Achieving Sustainable Growth in Reality, KPMG–CREDAI, December 2011

³² Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

³³ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

Create Robust Public Private Partnership (PPP) Model

PPP projects can play pivotal role in bridging the gap between demand and supply of urban housing as they can be instrumental in attracting private capital for financially viable affordable housing projects. The Government and private developers can have a symbiotic relationship through the PPP model – wherein the Government can transfer the operations risk (construction and finance) to the private sector, which is better equipped to manage the same and the private players can leverage through PPP structure a robust revenue model that typically offer a good prospect of return on risk capital.

Under the Rajiv Awas Yojana (RAY), nine pilot PPP projects have been approved with a funding ratio of 50:50 between the developer and the state government of Andhra Pradesh, Madhya Pradesh and Rajasthan at a total cost of INR 470 crore. The government plans to develop 8,000 EWS housing units from these projects³⁴.

PPP in affordable housing, however, continues to be in a nascent stage and there is immediate requirement to provide an enabling environment by formulating investor friendly policies and instituting mechanism for fast project approvals. Institutionalising PPP best practices together with the following measures³⁵ could help in overcoming the shortage of housing in EWS and LIG categories:

- Deliverables required from the public sector partner should be front-ended
- Tie-up of key project resources such as land at the outset
- Avoid ambiguity in the contract terms that may lead to re-negotiation
- Finite timelines for decisions from public sector partner
- Need for conservative view on execution timelines – Project timeline should preferably be 3 to 4 years
- Institutionalise a viability gap funding mechanism under RAY for PPP projects based on appraisal of the finances and economics of each project.

Case Study: PPP Model for housing in Jaipur

To augment the growth of the real estate sector in the state, the Rajasthan Government has formalized Affordable Housing Policy, 2009, with focus on EWS/LIG/MIG through PPP

³⁴ Rajiv Awas Yojana: builders not too keen on rental housing, Live Mint, 28 May 2012

³⁵ Presentation by ICICI Venture on “Public Private Partnership: Issues for Consideration”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012; Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012; KPMG Analysis

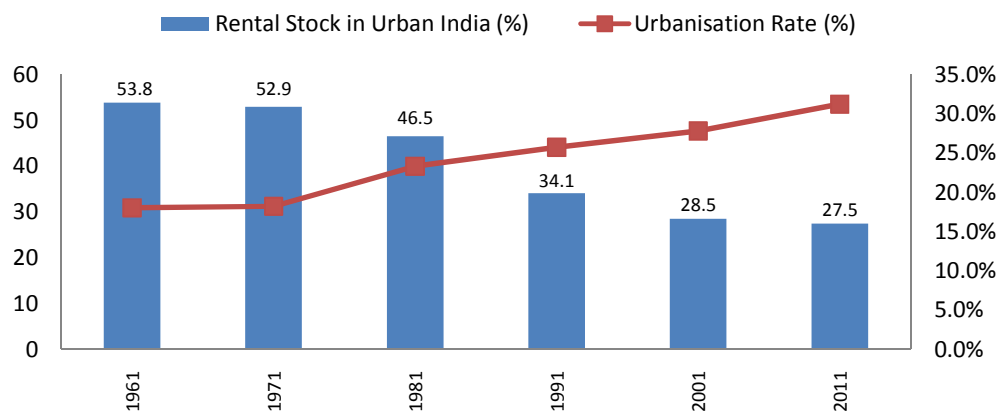
model. The objective of the policy is to promote investments in housing in Urban areas on PPP model. The new housing policy promotes PPP model and is beneficial for both the Developer and State Government. Key features of the policy are as follows:

- Housing Policy of the Govt. of Rajasthan promotes PPP
- 75,000 houses (60 percent of budgeted target) for EWS / LIG through PPP
- Locations: Global city, Neemrana, Greater Bhiwadi and New Jaipur
- Private Developer on Private Land:
 - Developer constructs G+3 EWS / LIG flats on 25-40 percent land owned by him
 - Flats handed over to Govt. at pre-determined price of INR 750 per sq. ft.
 - Developer gets additional FAR, twice the permissible limit on entire plot
 - Additional FAR can be utilised on remaining plot area or exchanged for TDR
 - Waiver of EDC, Plan approval fees, Conversion charges; lower stamp duty
- Private Developer on Govt. Land / Acquired Land
 - 50 percent of the land earmarked for construction of EWS / LIG flats
 - Bids invited, Developer offering maximum no. of (free) EWS / LIG flats selected
 - Developer free to construct and sell MIG / HIG flats on remaining 50 percent land
- Slum Redevelopment with participation of Private Developer.

Facilitate Penetration of Rental Housing in Urban Areas

Census of India figures suggest that India's share of rental housing stock has progressively declined with increasing urbanization. To promote rental housing there is an urgent need to amend the archaic Rent Control Act which is a key deterrent to rental housing development. Creation of social rental housing stock and provision of adequate tax incentives for private rental affordable housing development are other measures that could help in meeting to the demand for EWS/LIG rental housing.

Rental Housing Stock and Urbanisation



Source: National Housing Board; Census of India, 2011

Rent Control Reforms

Rent control reforms which adequately balance the rights and obligations of landlords and tenants are an imperative for promoting rental housing in the country. Archaic rent control laws in most States constrains landlords from charging fair market rent from the tenants which results in withdrawal of houses from rental market leading to reduced supply of affordable housing.

Gujarat Government has provided following exemptions³⁶ from The Bombay Rents, Hotel and Lodging House Rents Control Act, 1947 to reform the existing act and make it market friendly.

- Any premises constructed on or after the commencement of the Bombay Rents, Hotel and Lodging House Rents Control (Gujarat Second Amendment) Act, 2001
- Any existing premises which is self-occupied by the owner or vacant on or after commencement of the Bombay Rents, Hotel and Lodging House Rents Control (Gujarat Second Amendment) Act, 2001 and is let after such commencement.

While more long-term rent control reforms need to be considered, bringing in similar measures could encourage construction and development of rental housing stock in other states atleast in the short to medium term.

Social Rental Housing

Social rental housing in India has very low penetration unlike many developed economies which have emphasized on affordable or social rental housing that constitutes up to 20-30

³⁶ Presentation by S.B. Dangayach on "Shelter For All Through Rental Housing: Need For Bold India-Centric Reforms", NAREDCO 11th Annual Convention on "Sustainable Housing for Masses: Introspection and Way Forward", December, 2012

percent³⁷ of their housing stock. In these countries, the Government acts as a facilitator as well as an enabler by promoting social rental housing which is either provided by the Government or by limited or non-profit housing associations that utilize government incentives.

Country	Percentage of total housing stock*		Percentage of social housing stock by**	
	Social rental	Private rental	Pure public sector	Housing Associations (Limited profit /non-profit)
UK	20	10	54	46
Ireland	7	11	90	10
USA	3	29	31	69 [^]
Australia	5	22	85	8
Canada	6	28	34	66
Austria	23	17	43	53
France	16	24	Some	90 [^]
The Netherlands	35	12	1	99
Denmark	19	18		100 [^]

Source: International experience in providing affordable housing, IDFC 2011

Note: Housing associations are for-profit, non-profit or limited profit organizations that build and/or manage low-cost or social housing

*Remainder of total housing stock is predominantly ownership

**The social housing stock includes both social rental and ownership units

[^]Include some for-profit associations, co-operatives, moderate rent agencies and regulated private landlords. Some associations have tenant shareholders

[^]Include some for-profit associations, co-operatives, moderate rent agencies and regulated private landlords. Some associations have tenant shareholders

The Mumbai Metropolitan Region Development Authority (MMRDA) has launched an affordable rental housing program for Low Income Groups. Although, the scheme has achieved limited success, other State Governments could try to improve upon the shortcomings of the program and make efforts to launch affordable rental housing schemes in their own states.

³⁷ International experience in providing affordable housing, IDFC 2011

Case Study: MMRDA Rental Housing Program for Low Income Groups

The Government of Maharashtra has appointed MMRDA as the implementing authority for Rental Housing Projects. The projects undertaken are of 'Vital Public Purpose' and first of its kind 'Slum Prevention Programme'. The salient features of the programme are as follows:

- MMRDA and few of the leading developers of Mumbai joined hands to provide rental housing to about 43,000 low-income families.
- The plan was to develop 525 acres of land in Virar, the northern suburb of Mumbai.
- The developer would construct the houses and hand it free of cost to MMRDA, which in turn will rent them out as its terms and conditions.
- These properties are built specifically for the purpose of renting and will be owned by real estate investment trusts (REITs) or corporate, and not by individuals.
- The scheme was expected to generate rental housing stock of about 2.58 lakh units in 3-4 years.
- The scheme met with limited success as it lacked the necessary enforcement and the required rental management.

Source: MMRDA, KPMG Analysis

Tax Incentives for Private Rental Affordable Housing Development

Adequate tax incentives could also encourage private developers to develop affordable houses under a lease model i.e. under which all units of the projects would be leased and not sold. Towards this, any of the following two models could be considered:

- **Deduction under Section 35 AD (5) (ac):** In line with the recommendation³⁸ made by the Affordable Housing Task Force, deduction under 35 AD (5) (ac) could be made available to private developers for the entire capital expenditure incurred by them on rental housing projects to make it a commercially feasible proposition for them.
- Alternatively, entire lease income from rental affordable housing projects could be exempted from tax. In this regard, adequate safeguards can be built with regards to:
 - the period for which lease can be given for a particular unit
 - the number of years before which the developer would not be permitted to sell any unit.
 - It may also be provided that such exemption would be available for a specified number of years post completion of the project.

³⁸ Affordable Housing Task Force (AHTF) on "Promoting Affordable Housing", November 2012

- It may also be provided that where the above benefits are taken by any developer under an affordable housing segment; they would not be permitted to take any deduction under section 35 AD (5) (ac).

Achieve Economies of Scale by Adoption of Innovative Construction Techniques

Unless adequate efforts are made in achieving economies of scale, construction costs can't be minimised in case of public as well as private affordable housing development. Design standardisation coupled with use of low cost technologies and bulk material procurement strategies can immensely benefit affordable housing projects.

Standardise Building Norms to Promote Design Standardisation

For affordable housing projects, architects and builders should be encouraged to adopt scalable and standardised designs which allow for minor customisation based on the requirements of the project. Hence, it is imperative to revise building standards and norms for affordable housing across different regions of the country. The National Building Code should have provision to encourage and facilitate this. These standards and norms should account for the size, contour patterns, soil type and the local statutory requirements of the region. Furthermore, design standardisation could also enable adoption of innovative construction techniques which expedite project execution thereby saving construction costs for the developer. Singapore's Housing and Development Board adopted a strategy of standardization by building prototype flats and blocks to facilitate rapid construction of affordable housing units³⁹.

Low-cost Construction technologies

By leveraging on innovative and low-cost technologies, such as pre-fabrication, developers can construct affordable houses quickly and cost-effectively. Although, pre-fab materials are 15-20 percent⁴⁰ costlier, developers would gain from the dual benefits of higher efficiency and lower labor cost. In Europe and Middle East, use of precast concrete and engineering homes technology has enabled certain developers in saving up to 64 percent of the total man hours needed using conventional methods⁴¹.

Recently, a 10-storey building was constructed within 48 hours in Mohali, Punjab using pre-fabricated material⁴². This case has illustrated the benefits that could be achieved by using emerging construction technologies for development of affordable housing

The following illustration highlights the key features of some of the emerging technologies which could be considered for affordable housing projects:

³⁹ Affordable Housing, From those who understand the potential of 1 Sq. Ft., ICICI Property Services, September 2009

⁴⁰ 'Factory-made Homes', Business Today, February, 2012

⁴¹ Developers adopting precast concrete and engineering homes technology, The Economic Times, 9 June 2012

⁴² Punjab entrepreneur sets up 10-storey building in Mohali in 48 hours, The Times of India, 1 December 2012

Emerging Technologies for Housing and Building Construction

Technology	Materials Used	Key Features
R-Panels - Panel Building System	Meshes manufactured using high resistance steel bar of 2.5–5 millimeter (mm) diameter, self-extinguishing polystyrene core and chipping concrete.	<ul style="list-style-type: none"> • This building system is a load bearing wall construction which is seismic resistant and thermally insulated. • Buildings of any typology and architectural structural ranging from most simple to most complicated ones could be constructed. • The base element of this system is a modular panel composed of two electro –welded galvanized steel meshes having diameter 2.5–5 mm are joined by connectors, in the middle of which is suitably shaped foam polystyrene plate. This polystyrene is self-extinguishing foam polystyrene which is used as disposable foam and as an insulating layer. EPS is made of carbon hydrogen and 98% air. • Once the panels are installed, they are anchored and finished with the application of light concrete on both the sides. • As a load bearing element, the double panels and the floors are finished during the installation with concrete of suitable grade placed into the slab ribs as well. In the case of non-load bearing walls, concrete plaster or even a pre-mixed one is applied for a thickness of at least 25mm.
Technology using expanded steel mesh panels, polystyrene beads & alleviated concrete	Expanded steel type of galvanized steel mesh panels, cast and expanded in continuous process from 1.6mm thick and 30 cm wide galvanized sheet coil and Alleviated concrete made up of cement, fiber, sand and expanded polystyrene beads (1-4mm).	<ul style="list-style-type: none"> • This system is entirely an on-site construction process. • The concrete base and the foundations of the structure are prepared in a conventional manner by regular, poured, heavy concrete or alleviated concrete. In order to get good thermal insulation and good comfort from ground, it is advised to use at least one layer of alleviated concrete. • The galvanized steel mesh panels are tied to the soldered wire mesh and to the iron rods in the base and in the foundations and assembled in accordance with the design of the house. The complete skeleton of the construction along with the roof is formed by fitting galvanized steel wire studs horizontally and vertically into each other. • Once this procedure is completed, alleviated or light concrete is injected with a special

		concrete pump. The injected walls are then finished, leveled and smoothen from both the sides.
Pre-stressed precast prefab technology	Cement concrete steel strands and reinforcing steel.	<ul style="list-style-type: none"> • The slabs, columns, beams, stairs, etc. are designed and manufactured in the factory shipped and erected at site. • The structural frame is commonly composed of rectangular columns of one or more storeys height. • The beams are normally rectangular, L-shaped or inverted T-beams. They are single span or cantilever beams, simply supported and pin-connected to the columns. • The joint between the floors elements are executed in such a way that concentrated loads are distributed over the whole floor. This system is widely used for multi storeys buildings.
Monolithic Concrete Technology Using Plastic Form Work	M20 grade concrete wall, slabs and HYSD reinforcement of Fe415/Fe500 grade.	<ul style="list-style-type: none"> • In this technology walls and slabs are cast in one operation and specially designed light weight form/moulds in concrete. Concrete is poured in forms and once after the setting of concrete takes place the forms are removed which gives box like cubical structure of the required architectural design. • This pre-designed formwork acts as some sort of assembly line production and enables rapid construction of multiple units of repetitive type.
Precast Concrete Panel	Cement, aggregate, sand with additives, welded mesh and plates, polystyrene core.	<ul style="list-style-type: none"> • These load bearing panels are made of rein enforce concrete with a polystyrene insulated core that varies in size from 40mm to 200mm depending upon the insulation requirements. • These panels are moulded in a specially designed steel moulds under control factory conditions. Then the panels are removed from the moulds and stacked vertically for curing. Power and water conduits are installed in the panels during production. • Due to cohesive structural design, this system requires only strip foundation for most of the buildings. The concrete panels can be designed with the strength of 5000 pounds per square inch (psi) so to have a stronger thinner and light weight panels as compared to concrete blocks or most poured concrete walls.

		<ul style="list-style-type: none"> • This system takes two hours to prepare foundation and three hours for the panels to set.
Industrialized 3-S system	Concrete, cellular light weight concrete slabs, precast column.	<ul style="list-style-type: none"> • This industrialized construction technology is based on factory mass manufactured structural prefab components conforming to norms of IS standards and BIS certification mark. • In this system, dense concrete hollow column shell is used in combination with pre-cast dense concrete beams. • The hollow columns are grouted with appropriate grade of in-situ concrete along with secured embedded reinforcement of appropriate size, length and configuration to ensure monolithic continuous resilient behavior.
GFRG/ Rapidwall Building System Technology	Gypsum plaster reinforced with glass fibers.	<ul style="list-style-type: none"> • This is a panel product suitable for rapid mass-scale buildings construction, was originally developed and used since 1990 in Australia. These panels are presently manufactured to a thickness of 124mm. • The main application is in the construction of walls, it can also be used in floor and roof slabs in combination with reinforced concrete. It is mandatory to provide embedded RCC horizontal tie beam over all the walls below the floor slab/roof slab. • The panels may be unfilled, partially filled or fully filled with reinforced concrete as per requirement. • These panels possess substantial strength not only as load bearing elements but also capable to resist earthquake and wind. Buildings up to ten storeys in low seismic zones can be designed with these systems. • GFRG building systems can be constructed only with technical support or supervision by qualified engineers and constructors.

Source: Presentation by Building Materials & Technology Promotion Council (BMTPC) on “Emerging Technologies for Housing and Building Construction”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

Long-term Supply Contracts and Bulk Purchase Strategies

To mitigate the risk of material price escalation, State Housing Authorities such as Maharashtra Housing and Development Authority (MHADA), which have the onus of developing public affordable housing, uses long-term supply contracts and bulk purchase strategies. Singapore's Housing and Development Board adopts such measures to ensure continuous supply of essential building materials at steady prices⁴³.

Promote Sustainability

Embracing sustainability in design and construction of affordable housing projects could result in multiple tangible as well as intangible benefits throughout the project lifecycle. According to the Indian Green Building Council (IGBC), in comparison to a conventional building, a Green Building can result in average energy savings of 20–30 percent in addition to average water savings of 40–50 percent⁴⁴.

To encourage construction of sustainable affordable houses, the Government must consider incentivising developers of certified Green Buildings. A developer could be allowed to apply for additional FSI of 5 percent if the project achieves a Green Building Certification or Rating from recognised institutes such as the IGBC.

Setup Robust Governance Mechanisms

To ensure that the EWS/LIG segments reap genuine benefits of the aforementioned efforts, it would also be important to setup robust governance mechanisms. In case of public affordable housing projects, the allocation criteria should be formulated in a way that it ensures only the most-needy households are eligible for affordable housing units. A monitoring agency such as the Hong Kong Housing Association⁴⁵, which has an extensive system for allocating units, could be set up to ensure this. These units could then be allotted via a transparent process (For e.g. draw of lottery) to ensure that the right beneficiaries have been identified.

Conclusion

There is no doubt that the Government of India has taken many steps in the right direction to make the housing dream of masses a reality. However, the scale of the problem necessitates more radical thinking on the part of the Government in its bid to involve the private sector and provide enabling environment to give much needed fillip to affordable housing development in the country. As exemplified by Rajasthan, adequate policy support from State Governments is a vital cog in the wheel. In addition, role of other stakeholders such as private developers, state governments, financiers and end-users are equally important. Adoption of a more social and 'beyond profit' mindset among private developers could provide innovative and scalable business models for affordable housing.

⁴³ Affordable Housing, From those who understand the potential of 1 Sq. Ft., ICICI Property Services, September 2009

⁴⁴ Presentation by Indian Green Building Council (IGBC) on "Green Buildings – Lessons Learnt", NAREDCO 11th Annual Convention on "Sustainable Housing for Masses: Introspection and Way Forward", December, 2012

⁴⁵ Making Affordable Housing Work in India, RICS, November 2010

Although affordable housing for all in India still has some distance to cover, an integrated and holistic approach from the concerned stakeholders would help the country in facing the daunting challenges.

About NAREDCO

National Real Estate Development Council (NAREDCO) was established as an autonomous self-regulatory apex national body in 1998 under the aegis of Ministry of Housing and Urban Poverty Alleviation, Government of India. The Founders included leading Public and Private sector companies like Housing and Urban Development Corporation (HUDCO), National Housing Bank (NHB), DLF Ltd., K Raheja Constructions, Unitech Ltd., LIC Housing Finance Ltd., HDFC Ltd. and PNB Housing Finance Ltd. etc. The housing and real estate sector in India and the allied industries hailed establishment of NAREDCO and visualized it as a single platform of Government, industry and the public to discuss issues relating to development and advocacy of policies and systems. NAREDCO was formed with the mandate to induce transparency and ethics in real estate business and transform the unorganized Indian real estate industry into a mature, professional and globally competitive industry.

The National Real Estate Development Council strives to be the collective voice of the real estate industry. It strives to be the leading advocate for developing standards for efficient, effective and ethical real estate business practices, valued by the stakeholders and viewed crucial for success. NAREDCO works to create and sustain a business environment conducive for the growth of the real estate industry in India, partnering industry and Government alike through advisory and consultative processes.

About KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. It operates in 153 countries and have 145,000 people working in member firms around the world. KPMG in India, a professional services firm is the Indian member firm of KPMG International and was established in September 1993. Its professionals leverage the global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. KPMG in India provide services to over 4,500 international and national clients in India. The Indian firm has access to more than 5,000 Indian and expatriate professionals, many of whom are internationally trained. It strive to provide rapid, performance-based, industry-focused and technology-enabled services, which reflect a shared knowledge of global and local industries and experience of the Indian business environment.





Recommendations of 11th National Convention of NAREDCO on "Sustainable Housing for Masses" held on 7 – 8 December 2012, at Vigyan Bhawan, New Delhi

The National Real Estate Development Council (NAREDCO), organized its 11th National Convention on Sustainable Housing for Masses on 7 – 8 December 2012 at Vigyan Bhawan, New Delhi. The Convention received overwhelming response. Approximately 800 participants from across the country attended the Convention. The participants of Convention included Central and State Govt. officials, real estate developers, institutional and retail investors, marketing personnel, consultants, academicians, students, housing finance institutions, research & analysis agencies, trade bodies etc. Approximately 50 senior officials from various departments of State and Central Governments were also present and made significant contributions.

The Convention was inaugurated by Shri Pranab Mukherjee, Hon'ble President of India. Shri Ajay Maken, Hon'ble Minister of Housing and Urban Poverty Alleviation, Govt. of India, was Guest of Honour. Hon'ble President called upon Govt. and private sector to work together and create environment and support system favourable for the development of urban infrastructure and housing to meet the growing need of existing and new migrants as urbanization was unstoppable in fast growing economy like India. Hon'ble Minister of Housing and Urban Poverty Alleviation advised private sector developers to take on affordable housing construction on mass scale to improve profitability and informed that his Govt. was serious on bringing more transparency and accountability in the sector through legislative and regulatory mechanisms.

Session 1 on Urban Planning – Need for New Approach was chaired by Shri Navin M Raheja, President, NAREDCO. Dr. Isher Judge Ahluwalia, Chairperson, ICRIER, Shri Susheel Kumar, Joint Secretary (Housing), Govt. of India, Dr. G S Sandhu, Principal Secretary, UDH & LSG, Govt. of Rajasthan, Shri Raj Singh Gehlot, Director, Ambience Developers and Infrastructure, Shri Ashok Soloman, Chairman, Chintels India Ltd., Shri R K Arora, CMD, Supertech Ltd. and Shri Sanjeev Dasgupta, President, ICICI Venture Funds were the speakers.

Session 2 on Challenges 4G-3R (Growth, Governance, Graft, Grievances and Rationalisation, Regulation and Redressal) was chaired by Justice S N Dhingra (Retd.), Member, Competition Commission of India. Shri Getamber Anand, MD, ATS Infrastructure Ltd., Shri J C Sharma, Vice Chairman & MD, Sobha Developers Ltd., Col. Arun Gupta, Executive Director, TDI and Shri Arun Mohan, Senior Advocate, Supreme Court of India were the speakers.

9Session 3 on Balancing Environment with Urban Growth was chaired by Shri Pranav Ansal, Vice Chairman & MD, Ansal API. It was a Panel Discussion and Panelists were Dr. Sudhir Krishna, Secretary, Ministry of Urban Development, Govt. of India, Shri Rajesh Arora, Vice Chairman, Arora Group, Shri P K Tripathi, President, Unitech Ltd., Shri Sunil Mantri, Chairman, Mantri Realty Ltd., Shri Rajan N Bandelkar, Director, Raunak Group, Shri Vidur Bhardwaj, Director, 3C Universal, Shri Tanmoy Tataghat, Director – Environmental Design Solutions, Shri R Damodaran, Director, Smarter Planet Solutions, ISA, IBM India Pvt. Ltd.. A Memorandum of Understanding (MoU) between NAREDCO and Indian Green Building Council (IGBC) for promoting Green Building movement in India was also signed.

Session 4 on Housing for Masses was chaired by Shri Sunil Mantri, Vice President, NAREDCO. Shri V P Baligar, CMD, HUDCO, Shri Ramamurthy, Director (Project), IREO Ltd., Shri P S Jayakumar, MD, Value and Budget Housing Corporation, Shri Abbas Master, CEO, Saifee Burhani Upliftment Trust, Shri V Satyanarayana, CEO, Aarusha Homes, Shri S B Dangayach, MD, Sintex Industries Ltd., Shri Neeraj Bansal, Director, KPMG India, Shri R Karikal Valaven, Secretary (Housing), Govt. of Andhra Pradesh and Shri S P Tripathi from Supertech Ltd. were the speakers.

Session 5 was a Panel Discussion in English on ‘Enabling Supply side Sustenance for Converging the Gap in Affordable Housing’, moderated by Ms Manisha Natrajan, Senior Editor, NDTV Profit. Panelists were Shri Navin M Raheja, CMD, Raheja Developers Ltd., Shri Anuj Puri, Chairman & Country Head, Jone Lang LaSalle, Shri R V Verma, CMD, NHB, Shri P S Jayakumar, MD, VBHC, Shri S K Chaudhary, Sr. ED, HUDCO Ltd., Shri Rajesh Arora, Vice Chairman, Arora Group, Shri Sunil Dahiya, Sr. VP, NAREDCO, Shri Ashok Khurana, Member Engineer, DDA and Shri Sandeep Ahuja, Sr. Vice President, Tata Housing.

Session 6 was also a Panel Discussion in Hindi on ‘Housing for Masses’, moderated by Shri Amish Devgan of Zee Business. Panelists were Shri V P Baligar, CMD, HUDCO, Shri Ashok Khurana, Member Engineer, DDA, Shri Anuj Puri, Chairman & Country Head, Jones Lang LaSalle, Shri Sandeep Ahuja, Sr. Vice President, Tata Housing, Shri Sunil Mantri, Chairman, Mantri Realty Ltd., Shri Navin M Raheja, CMD, Raheja Developers, Shri Sunil Dahiya, MD, Vigneshwara Developers and Shri Rajesh Arora, Vice Chairman, Arora Group.

Session 7 on ‘Fund Raising in Real Estate’ was chaired by Shri Sunil Dahiya, Sr. Vice President, NAREDCO. Shri R Karikal Valaven, Secretary, Housing Department, Govt. of Andhra Pradesh, Shri Rohit Singh, Vice President, Kotak Mahindra Bank Ltd., Shri Jimmy Olsson, Aldia Capital, Shri S P Tripathi, CEO, Supertech Precast Technologies Pvt. Ltd. and Shri Jayesh Kariya, Head Real Estate, KPMG were the speakers.

Session 8 on ‘Skill Development and Technology Upgradation’ was chaired by Shri Sachin Sandhir, MD, South Asia, RICS. Shri Parag Majmudar, Chairman, Ritman Infra Ltd., Shri Harpal Singh, CMD, Synergy Thrislington and Shri Alok Agrawal, Gamut Infosystems Ltd. were the speakers.

Valedictory Session was chaired by Shri Navin M Raheja, President, NAREDCO and Co chaired by Shri Sunil Dahiya, Sr. Vice President, NAREDCO. Shri Neeraj Bansal, Director Real Estate, KPMG presented the important outcomes of the Convention.

Convention Background

India's urban population registered a decadal growth of 32 percent rising from 285 million to 377 million between 2001 and 2011¹. By 2050, 900 million people will be living in Indian cities². The rapid pace of urbanisation owing to rural–urban migration is putting enormous strain on the urban infrastructure in the cities. As the urbanization continues, the major concern for India's urban planners is going to be the massive urban housing shortage, primarily for Economically Weaker Sections (EWS) and Low Income Groups (LIG). The total housing shortage estimated after 2011 census is 18.78 million³ predominantly for EWS and LIG.

Encouraging private sector participation in affordable housing, traditionally the domain of the government, could provide the answer to India's urban housing predicament. However, as things stand to-day, the real estate sector is facing considerable headwinds. Issues continue to persist in land availability and pricing, project approval and financing and mortgage loans for EWS and LIG, which make affordable housing projects unviable for private developers.

Making affordable housing work in India necessitates the active involvement of all the stakeholders. State and Central Government support in the form of liberal regulations and inclusive growth policies could provide the means for harnessing the full potential of affordable housing in the country. Steps such as establishment of single window clearance mechanism for project approvals and formulation of innovative micro mortgage lending models could encourage private sector involvement. The developers, on their part, may have to adopt innovative and low-cost technologies to deliver cost effective affordable houses.

Affordable Housing –Need of the hour

The rural–urban migration, post economic liberalisation, has resulted in rapid rise in India's urbanization which now stands at 31.2 percent⁴. The trend of migration from rural to urban areas is likely to continue as, during 2012-2050 the urbanization is likely to grow at a CAGR of 2.1 percent – double that of China⁵.

While concentration of people in urban areas has grown, there has also been an increase in the number of people living in slums and squatter settlements. Skyrocketing prices of land and real estate in urban areas have induced poor and economically weaker sections of society to occupy the marginal lands typified by poor housing stock, congestion and obsolescence. As a result, a substantial housing shortage looms in Urban India and a wide gap exists between the demand and supply of housing, both in terms of quantity and quality.

According to a report submitted by a technical committee to the Ministry of Housing and Urban Poverty Alleviation (MHUPA), India's urban housing shortage is estimated at nearly

¹ Census of India 2011; KPMG in India analysis

² Urban Infrastructure in India, FICCI, October 2011

³ Report of the Technical Urban Group (TG-12) on Urban Housing Shortage 2012-17, Ministry of Housing and Urban Poverty Alleviation, September 2012

⁴ Census of India 2011

⁵ Opportunities in an Urbanizing World, Credit Suisse, April 2012

18.78 million households in 2012⁶. It is not surprising that the economically weaker sections (EWS) and low income groups (LIG) constitute over 96 percent of this shortage as the majority of the housing stock built across urban India is beyond their affordability.

Traditionally, the onus of supplying affordable housing has been with public sector entities such as State Housing Boards and Development Authorities. However, in the last five years, the constructive policy initiatives of the Govts. have encouraged private developers to launch projects in the affordable segment. Such instances, however, are few as affordable housing development continues to be an unviable proposition for the developers.

Given the magnitude of housing shortage, it is clear that the lone effort of public sector and a few private players would not be sufficient to bridge the gap. If India is to achieve the goal of “Affordable Housing for All”, there is a need to realistically address the constraints faced by private developers and formulate policies that encourage their participation.

Real Estate Developer’s Constraints

A recent joint study⁷ by KPMG and NAREDCO has highlighted the following key challenges which are proving to be the main impediments for private participation in affordable housing development:

Unavailability of Urban Land

High population density in urban areas has triggered huge demand for urban land. There is growing need to revisit the government regulations which have created artificial land shortage and pushed up land prices in India. Without changes in development norms, the limited land available in urban areas will make it unviable for developers to take up affordable housing projects. Further, the substantial non-marketable urban land used by Government-owned entities could also be used more efficiently. A number of these land parcels are in centrally located areas. Authorities should make optimum use of these land parcels to prevent on-going proliferation of slums and squatter settlements, as also create additional housing stock for new migrants.

Delay in Project Approvals from Multiple Authorities

Estimates reveal that real estate developers are required to procure approvals from about 50 departments of central and state governments and municipal bodies. It has been estimated that delays in project approval adds 25-30 percent to the project cost⁸. Better co-ordination between multiple authorities dealing with permissions/approvals will encourage real estate developers to invest in the affordable housing segment. Currently, it takes nearly two to three years⁹ for a developer to commence construction after entering into an agreement for land purchase.

⁶ Report of the Technical Urban Group (TG-12) on Urban Housing Shortage 2012-17, Ministry of Housing and Urban Poverty Alleviation, September 2012

⁷ Bridging the Urban Housing Shortage in India, KPMG–NAREDCO, December 2012

⁸ Achieving Sustainable Growth in Realty, KPMG–CREDAI, December 2011

⁹ ‘Corruption and Transparency in Realty - The Reality’, infrawindow.com

Rising Construction Cost

Unlike premium residential projects where pricing is largely driven by land cost, pricing of affordable housing is primarily driven by the cost of construction. Construction costs nearly 50 to 60 percent of the selling price in affordable housing projects as compared to 18 percent to 20 percent¹⁰ in luxury projects. Contrary to land, where prices decline exponentially as projects move away from centrally located to peripheral areas of a city, fall in construction cost is gradual from luxury to low-income housing projects. Hence, construction cost minimization is vital for the viability of affordable housing projects.

Raw materials, such as steel, cement, sand, bricks, etc, have witnessed price escalation of 20-50 percent¹¹ in the recent past. Owing to the success of the National Rural Employment Guarantee Act (NREGA), the labour shortage in construction has also risen, impacting the construction cost due to rise in wages.

Financing Constraints of Low Income Groups

The current financing mechanism in the country is tilted towards servicing MIG & HIG segments. As a result, households falling under LIG and EWS categories find it difficult to secure formal housing finance. Commercial banks and other traditional means of housing finance typically do not serve low-income groups, whose income may vary with crop seasons, or is below the 'viable' threshold to ensure repayment, or who cannot provide collateral for loans. Further, housing finance companies (HFCs) are unable to serve the LIG and EWS categories owing to their inability to produce documents required for loan sanction. The loan market of INR 3-10 lakh is estimated at INR 1,100,000 crore¹². Despite this, less than 20 percent of the total INR 55, 200 crore worth of housing loans disbursed by HFCs in FY2011 were in the loan bracket of INR 3-10 lakh¹³.

Limited Financing Avenues for Developers

Besides buyers, real estate developers are also grappling with funding challenges. Banks have curtailed their exposure to real estate citing risk perception, leaving them to high cost finance options such as Non-banking Financial Companies (NBFCs) and Private Equity (PE) fundings as the only source of finance. Moreover, high cost of fund coupled with waning demand has disrupted the cash flow of developers forcing them to defer project launches, impacting supply.

Need to Relook at Laws and Building Guidelines

There is a growing need to revisit regulations such as Rent Control Act, which is proving to be a deterrent in the development of rental housing and redevelopment of areas with old properties. By revisiting development control and planning norms and old & archaic local

¹⁰ 'Urban housing shortage rising in India', The Times of India, 5 July 2012

¹¹ Achieving Sustainable Growth in Reality, KPMG-CREDAI, December 2011

¹² Micromortgages: A Macro Opportunity in Low-Income Housing Finance, Monitor Inclusive Markets, October 2010

¹³ Report on Trend and Progress of Housing in India, National Housing Bank, 2011; KPMG in India analysis

bodies building bye laws, many issues restricting supply and affordability could be addressed and planning made more realistic.

Lack of Skilled Manpower

India's real estate sector continues to grapple with the problem of skilled manpower shortage. This shortage can have an adverse impact on the delivery and cost of affordable housing projects. There is, therefore, a need to take up skill upgradation of construction workers on a large scale through organized and on job trainings, to cater for future demand of the sector.

Disputable Taxation Regime

Taxability of real estate transactions in India has always been a matter of dispute and litigation because of multiplicity of taxing agencies. Union Government, State Governments and Local Authorities are empowered to impose various indirect taxes on the developers¹⁴. There is a need to clarify whether 'the real estate property' is a product or service, then only the developers would be spared from the current double taxation regime. The Government also needs to revisit the non uniformity in stamp duties across the country. The stamp duty to be paid at the time of execution of the underlying instrument varies from 5 percent to 15 percent¹⁵ of the value of property in different States.

Recommendations – The Way Forward

Urban Land Planning – Make Affordable Housing a Priority

Holistic and inclusive urban planning with focus on land-use optimisation would catalyse affordable housing development in urban areas. Therefore, there is a need to integrate socio-economic planning with spatial planning. Appropriate zoning for affordable housing must be a mandate for Urban Local Bodies (ULBs) and Urban Development Departments (UDDs) in the master plans. The links between housing location, livelihood and transport can no longer be ignored. The country could learn from Singapore example, where public transport planning is linked with housing.

Additionally, there is a scope for better utilization of large parcels of land owned by government entities as the land parcels are centrally located and well connected to the existing infrastructure. These could be pooled and utilised for constructing affordable houses. Computerization of land records would enable better monitoring of the land bank available with states and cities. Subsequently, an asset management plan can be used to earmark land for affordable housing projects.

¹⁴ KPMG in India analysis

¹⁵ Achieving Sustainable Growth in Reality, KPMG-CREDAI, December 2011

Private Sector Development – Make it a Viable Proposition

Private real estate developers would participate actively and aggressively in this segment if it is made a viable proposition for them. A strong regulatory response coupled with adequate incentives and subsidies could make the economics work. Following are important recommendations in this regard:

Fast Track Approvals for Affordable Housing Projects

State Governments should consider introduction of single window online clearance mechanism for affordable housing projects which would facilitate clearance of projects within defined timelines. Furthermore, there is a need to simplify procedures and processes for land acquisition and conversion of agricultural land for urban uses.

Under its Affordable Housing Policy, 2009, the Rajasthan Government has introduced a fast track approval in 30 days for affordable housing projects¹⁶. Similar efforts have been made by cities such as Indore, Pune and Hyderabad to overcome systemic hurdles in building permit processes. The ‘Green Channel’ initiative of Greater Hyderabad Municipal Corporation (GHMC) helps in incentivizing development, eases grant of building permissions and introduces transparency and accountability¹⁷. The adoption of the automated building plan approval procedure by the Pune Municipal Corporation has reduced the time required for sanctioning building plans to 21 days from the earlier 45-50 days¹⁸. Hence, to expedite affordable housing development, establishment of a ‘single window’/ fast track/online approval procedure must be a priority for other state governments as well.

Floor Space Index (FSI)/Floor Area Ratio (FAR) Incentive

To augment supply of affordable housing, State governments should use FSI as tool. This will also enable private developers in bringing down the cost of land per housing unit. Land scarcity in urban areas has driven International cities such as New York and Shanghai to have an FSI of over 10¹⁹. Given this, there is huge scope for raising the FSI in Indian cities, which have an average of 2²⁰.

Rajasthan Govt. allows 0.5 percent additional FAR for timely completion²¹ and Transfer of Development Rights (TDR) which allows use of unutilized FSI in other projects, in addition to doubling the normal FAR for Affordable Housing projects.

¹⁶ Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December 2012

¹⁷ Building Permissions Within 4 Days, www.fullhyd.com, 20 October 2010

¹⁸ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

¹⁹ Higher FSI not enough, better infra a must: Builders, Business Standard, 9 April 2012

²⁰ Exclusive! Minister hints at more FSI, says it will rid cities of slums, DNA, 28 November 2011

²¹ Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

Rajasthan model could be emulated by other states. To ensure that the extra FSI does not choke the existing infrastructure, developers could be given the responsibility to upgrade them or authorities could charge extra EDC for doing the same.

Waiver of Fees and Charges

The Rajasthan and Andhra Pradesh States provide several concessions on development related charges to encourage private affordable housing development. While Rajasthan offers waiver of External Development Charges (EDC), agriculture land use conversion charges and building plan approval fee²², Hyderabad Master Plan provides waiver of fees and other charges for affordable housing developments to the tune of 25 percent for LIG housing and 100 percent for EWS housing²³.

EDC charges are quite high in certain Indian states and render many projects unviable²⁴. Concessions on development related charges by State Governments could give fillip to affordable housing development and attract more private investments.

Service Tax Exemption

Under the ‘Affordable Housing in Partnership (AHP)’ scheme, construction services relating to residential dwellings and low cost mass housing upto 60 square meters carpet area are exempted from payment of service tax²⁵. The Union Government must consider extending this benefit to houses of upto 60 sq.m carpet area developed by private developers on private land. It is estimated that such a concession could lower the project cost by 3.5–4.5 percent²⁶.

Provide Infrastructure Linkages by Using Proceeds from Sale of Land

Social upliftment could be achieved through affordable housing only when the required infrastructural linkages are provided by the State Governments. Parallel development of physical infrastructure like road, drainage, transport, water supply, sewerage disposal, electricity etc and social infrastructure like schools, hospitals and commercial centres etc. are critical for the success of such projects.

To ensure parallel development, many countries use proceeds from sale of land to provide infrastructure linkages. A case in point is Hong Kong where parcels of public housing land are tendered to qualified private sector developers and the proceeds from these parcels are used to cross subsidise the associated infrastructure and transit investments²⁷.

²² Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

²³ Affordable Housing in India, Jones Lang LaSalle, June 2012

²⁴ Will India Be A Fallen Angel, The Times of India, 1 December 2012

²⁵ Union Budget to provide impetus to affordable Housing : Kumari Selja, Press Information Bureau, 16 March 2012

²⁶ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

²⁷ Making Affordable Housing Work in India, RICS, November 2010

Alternate Sources of Funding for Developers

As mentioned earlier, in the current scenario developers are dependent on private sources of funding. This constrains them from investing in affordable housing projects because of high cost of funds. Therefore, there is a need to develop new financing avenues for affordable housing projects.

Although Foreign Direct Investment (FDI) Policy on Housing permits 100% foreign investment, there is very little investment in affordable housing segment. Therefore, there is a need to liberalise the policy further to encourage FDI in affordable housing projects. Similarly, more needs to be done to encourage the use of External Commercial Borrowings (ECBs) for low cost affordable housing projects. Below are some of the measures which could encourage FDI and ECB in Low Cost Affordable Housing Projects:

Financing Mode	What could be done?
FDI Policy on Housing	<ul style="list-style-type: none">• The current requirement of minimum built up area of 50,000 sq.m could be brought down to 20,000 sq mtr.• The minimum investment for joint ventures with Indian partners could be brought down from the current USD 5 million to USD 1 million.
ECB for Low Cost Affordable Housing Projects	<ul style="list-style-type: none">• The aggregate amount of USD 1 billion appears to be small. Hopefully the limit will be increased in future to meet the growing demand of the sector.• The two-level approval procedure i.e. first from the National Housing Bank (NHB) and thereafter from Reserve Bank of India (RBI) needs to be simplified and suitable time limits for processing of applications by the NHB and RBI fixed to facilitate quick and successful implementation of the scheme.

Source: KPMG Analysis

Infrastructure Status

Affordable Housing and Integrated Township development would be essential to cope with the urbanisation pressure faced by the country. However, despite being an essential social infrastructure requirement, Affordable Housing is yet to be included in the Harmonized Master list of Infrastructure. Granting Infrastructure status would assist in opening certain additional funding avenues for the affordable housing segment in addition to direct tax benefits. For example, such a move would attract funds from insurance companies, which are mandated to invest 15 percent of their funds in social and infrastructure sector (as per IRDA regulations)²⁸ as also qualify for raising fund through tax free infrastructure bonds.

²⁸ Bridging the Urban Housing Shortage in India, KPMG–NAREDCO, December 2012

Direct Tax Incentives

Section 80-IA

Affordable housing upto a carpet area of 60 sq.m should be brought under the purview of section 80-IA of IT Act 1961. The tax exemption available under sub-section (4) will incentivise private developers who would then be eligible for a deduction equal to 100 percent of the profits and gains derived from affordable housing projects for ten consecutive assessment years.

Section 80 IB (10)

Under Section 80 IB (10) of the IT Act, income tax deductions were available to developers, whose housing projects were approved on or before 31st day of March, 2008. The Government should consider reintroducing this tax exemption and make it applicable for projects sanctioned after 31st March 2008, at least till 2018. If need be, the size of the units eligible for the benefit could be limited to upto 60 sq.m²⁹, in line with the definition of affordable housing prescribed by the Affordable Housing Task Force.

Section 35 AD

It is also vital to streamline and liberalise the existing provisions of Section 35 AD of the IT Act to enable private developers to benefit from the tax deduction available on capital expenditure on Affordable Housing projects. The following illustration highlights the key provisions, issues and recommendations for Section 35 AD:

Tax Concessions for Affordable Housing under Section 35 AD of the IT Act

SN	Particulars	Provision/Issues/Recommendations
1	Provisions of Section 35 AD	<p>Section 35 AD of the Act allows deduction for capital expenditure (excluding expenditure on land/ goodwill/ financial instruments) incurred '<i>wholly and exclusively</i>' for the purposes of any <i>specified business</i> carried on by the assessee. The deduction is available subject to satisfaction of anti-abuse conditions.</p> <p>Under this section, if commencement of operation is on or after 1st April, 2011 but before 1st April, 2012, the deduction at the rate of 100 percent of the capital expenditure is available, whereas, if commencement of operation is on or after 1st April, 2012, deduction at the rate of 150 percent of the capital expenditure is available.</p> <p>Deduction under this section is available on happening of following event (whichever is later)</p> <p>(a) being the year in which the capital expenditure is incurred; or</p>

²⁹ Affordable Housing Task Force (AHTF) on "Promoting Affordable Housing", November 2012

		(b) being the year of commencement of operations.
2	Related provision : Section 73A of the IT Act	Any loss of the specified business is not allowed to be set off except against the profits & gains (if any) of any other specified business and to the extent such loss is unabsorbed, it shall be carried forward for set-off against profits & gains (if any) of other specified business in the following assessment years
3	Issues around Section 35 AD faced by Affordable Housing Developers	<ul style="list-style-type: none"> • Deduction is available to the assessee engaged in the specified business. Section 35 AD (8) (c) (vii) of the Act defines specified business to include developing and building a housing project. It is not clearly spelt out to say deduction would be available to developer only or it would be available to contractor where developer is not carrying out actual construction activities. <p>In redevelopment project, society acts as a developer and actual construction is undertaken by the contractor. In this scenario, whether deduction under this section would be available to construction contractor?</p> <ul style="list-style-type: none"> • The section provides for the deduction towards the pre-commencement capital expenditure only. • The loss of the specified business is allowed to be carried forward and set-off only against the profits & gains (if any) of any other specified business.
4	Recommendations	<ul style="list-style-type: none"> • Deduction should be available to companies engaged in constructing affordable housing projects using pre-fabricated and pre-cast or any other technology; • Deduction should be available to companies producing construction materials like blocks, panels, slab, walls, columns, toilet, staircase etc. used in construction of affordable housing projects using pre-fabricated and pre-cast or any other technology; • The loss of the specified business should be allowed to be set-off against the profits & gains of the business other than specified business.

Source: KPMG Analysis

Financial Empowerment of EWS/LIG Sections of the Society

Despite the sustained efforts of the Government, “Affordability” continues to be a concern for the target beneficiaries i.e. the EWS/LIG households. The following measures could help in demand boost and affordable housing development in the country:

Access to Micro Credit

Fundamental innovations are required in the traditional mortgage-lending model to help informal sector and self-employed people in LIG and EWS segment to avail housing loans. The Government could encourage effective financing through micro mortgages with the help of Self-Help Groups (SHGs) and other innovative financing mechanisms. This would ensure in making housing finance available to large sections of LIG and EWS who are deprived of mortgage loans from formal banking institutions. Flexible payment options should also be put into place, considering the fact that EWS/LIG households typically have variable income flows.

Stamp Duty Reduction

As opposed to other countries where stamp duty typically begins at 0 percent for low-value properties and gradually reaches 3 percent for high-value properties³⁰, stamp duty in Indian states vary from 5 percent to 15 percent³¹. To lower the final cost for the EWS/LIG sections, states such as Rajasthan, Madhya Pradesh (MP) and Uttar Pradesh (UP) have substantially reduced the stamp duty on EWS/LIG housing. While stamp duty in Rajasthan is INR 10 and INR 25 for EWS and LIG flats respectively³², in MP and UP INR 100 is charged towards stamp duty for EWS housing³³.

Priority Sector Lending

As mentioned earlier, housing credit continues to elude EWS/LIG household. No formal data is available at the national level to show the actual flow of bank credit to these sections. The Government and the RBI should, therefore, create a mechanism where banks are required to allocate certain portion of their loans and advances for the purpose of housing loans to EWS/LIG segments. The NHB can also take similar measures to ensure higher flow of credit from HFCs to the EWS/LIG sections.

Financial Literacy

Educational programs on financial literacy targeted at the EWS/LIG households could create more awareness and facilitate their decision making with respect to taking and repaying loans from formal establishments.

³⁰ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

³¹ Achieving Sustainable Growth in Reality, KPMG–CREDAI, December 2011

³² Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

³³ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

Create Robust Public Private Partnership (PPP) Model

PPP projects can play pivotal role in bridging the gap between demand and supply of urban housing as they can be instrumental in attracting private capital for financially viable affordable housing projects. The Government and private developers can have a symbiotic relationship through the PPP model – wherein the Government can transfer the operations risk (construction and finance) to the private sector, which is better equipped to manage the same and the private players can leverage through PPP structure a robust revenue model that typically offer a good prospect of return on risk capital.

Under the Rajiv Awas Yojana (RAY), nine pilot PPP projects have been approved with a funding ratio of 50:50 between the developer and the state government of Andhra Pradesh, Madhya Pradesh and Rajasthan at a total cost of INR 470 crore. The government plans to develop 8,000 EWS housing units from these projects³⁴.

PPP in affordable housing, however, continues to be in a nascent stage and there is immediate requirement to provide an enabling environment by formulating investor friendly policies and instituting mechanism for fast project approvals. Institutionalising PPP best practices together with the following measures³⁵ could help in overcoming the shortage of housing in EWS and LIG categories:

- Deliverables required from the public sector partner should be front-ended
- Tie-up of key project resources such as land at the outset
- Avoid ambiguity in the contract terms that may lead to re-negotiation
- Finite timelines for decisions from public sector partner
- Need for conservative view on execution timelines – Project timeline should preferably be 3 to 4 years
- Institutionalise a viability gap funding mechanism under RAY for PPP projects based on appraisal of the finances and economics of each project.

Case Study: PPP Model for housing in Jaipur

To augment the growth of the real estate sector in the state, the Rajasthan Government has formalized Affordable Housing Policy, 2009, with focus on EWS/LIG/MIG through PPP

³⁴ Rajiv Awas Yojana: builders not too keen on rental housing, Live Mint, 28 May 2012

³⁵ Presentation by ICICI Venture on “Public Private Partnership: Issues for Consideration”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012; Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012; KPMG Analysis

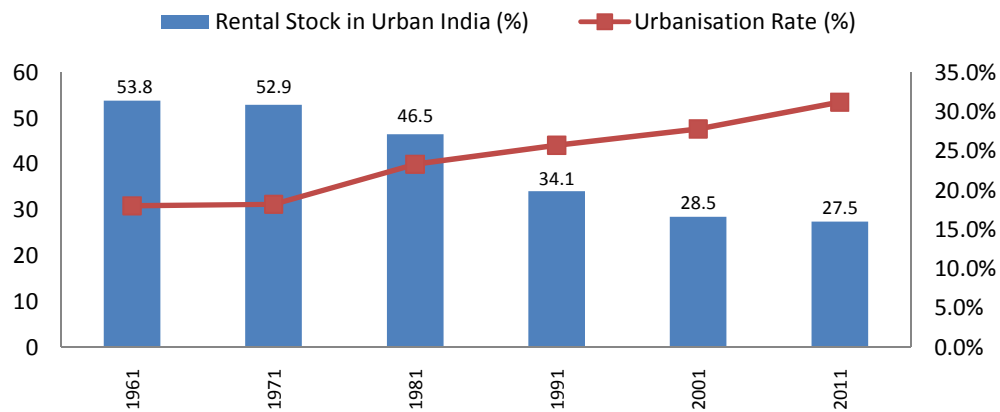
model. The objective of the policy is to promote investments in housing in Urban areas on PPP model. The new housing policy promotes PPP model and is beneficial for both the Developer and State Government. Key features of the policy are as follows:

- Housing Policy of the Govt. of Rajasthan promotes PPP
- 75,000 houses (60 percent of budgeted target) for EWS / LIG through PPP
- Locations: Global city, Neemrana, Greater Bhiwadi and New Jaipur
- Private Developer on Private Land:
 - Developer constructs G+3 EWS / LIG flats on 25-40 percent land owned by him
 - Flats handed over to Govt. at pre-determined price of INR 750 per sq. ft.
 - Developer gets additional FAR, twice the permissible limit on entire plot
 - Additional FAR can be utilised on remaining plot area or exchanged for TDR
 - Waiver of EDC, Plan approval fees, Conversion charges; lower stamp duty
- Private Developer on Govt. Land / Acquired Land
 - 50 percent of the land earmarked for construction of EWS / LIG flats
 - Bids invited, Developer offering maximum no. of (free) EWS / LIG flats selected
 - Developer free to construct and sell MIG / HIG flats on remaining 50 percent land
- Slum Redevelopment with participation of Private Developer.

Facilitate Penetration of Rental Housing in Urban Areas

Census of India figures suggest that India's share of rental housing stock has progressively declined with increasing urbanization. To promote rental housing there is an urgent need to amend the archaic Rent Control Act which is a key deterrent to rental housing development. Creation of social rental housing stock and provision of adequate tax incentives for private rental affordable housing development are other measures that could help in meeting to the demand for EWS/LIG rental housing.

Rental Housing Stock and Urbanisation



Source: National Housing Board; Census of India, 2011

Rent Control Reforms

Rent control reforms which adequately balance the rights and obligations of landlords and tenants are an imperative for promoting rental housing in the country. Archaic rent control laws in most States constrains landlords from charging fair market rent from the tenants which results in withdrawal of houses from rental market leading to reduced supply of affordable housing.

Gujarat Government has provided following exemptions³⁶ from The Bombay Rents, Hotel and Lodging House Rents Control Act, 1947 to reform the existing act and make it market friendly.

- Any premises constructed on or after the commencement of the Bombay Rents, Hotel and Lodging House Rents Control (Gujarat Second Amendment) Act, 2001
- Any existing premises which is self-occupied by the owner or vacant on or after commencement of the Bombay Rents, Hotel and Lodging House Rents Control (Gujarat Second Amendment) Act, 2001 and is let after such commencement.

While more long-term rent control reforms need to be considered, bringing in similar measures could encourage construction and development of rental housing stock in other states atleast in the short to medium term.

Social Rental Housing

Social rental housing in India has very low penetration unlike many developed economies which have emphasized on affordable or social rental housing that constitutes up to 20-30

³⁶ Presentation by S.B. Dangayach on "Shelter For All Through Rental Housing: Need For Bold India-Centric Reforms", NAREDCO 11th Annual Convention on "Sustainable Housing for Masses: Introspection and Way Forward", December, 2012

percent³⁷ of their housing stock. In these countries, the Government acts as a facilitator as well as an enabler by promoting social rental housing which is either provided by the Government or by limited or non-profit housing associations that utilize government incentives.

Country	Percentage of total housing stock*		Percentage of social housing stock by**	
	Social rental	Private rental	Pure public sector	Housing Associations (Limited profit /non-profit)
UK	20	10	54	46
Ireland	7	11	90	10
USA	3	29	31	69^
Australia	5	22	85	8
Canada	6	28	34	66
Austria	23	17	43	53
France	16	24	Some	90^
The Netherlands	35	12	1	99
Denmark	19	18		100^

Source: International experience in providing affordable housing, IDFC 2011

Note: Housing associations are for-profit, non-profit or limited profit organizations that build and/or manage low-cost or social housing

*Remainder of total housing stock is predominantly ownership

**The social housing stock includes both social rental and ownership units

^Include some for-profit associations, co-operatives, moderate rent agencies and regulated private landlords. Some associations have tenant shareholders

^Include some for-profit associations, co-operatives, moderate rent agencies and regulated private landlords. Some associations have tenant shareholders

The Mumbai Metropolitan Region Development Authority (MMRDA) has launched an affordable rental housing program for Low Income Groups. Although, the scheme has achieved limited success, other State Governments could try to improve upon the shortcomings of the program and make efforts to launch affordable rental housing schemes in their own states.

³⁷ International experience in providing affordable housing, IDFC 2011

Case Study: MMRDA Rental Housing Program for Low Income Groups

The Government of Maharashtra has appointed MMRDA as the implementing authority for Rental Housing Projects. The projects undertaken are of 'Vital Public Purpose' and first of its kind 'Slum Prevention Programme'. The salient features of the programme are as follows:

- MMRDA and few of the leading developers of Mumbai joined hands to provide rental housing to about 43,000 low-income families.
- The plan was to develop 525 acres of land in Virar, the northern suburb of Mumbai.
- The developer would construct the houses and hand it free of cost to MMRDA, which in turn will rent them out as its terms and conditions.
- These properties are built specifically for the purpose of renting and will be owned by real estate investment trusts (REITs) or corporate, and not by individuals.
- The scheme was expected to generate rental housing stock of about 2.58 lakh units in 3-4 years.
- The scheme met with limited success as it lacked the necessary enforcement and the required rental management.

Source: MMRDA, KPMG Analysis

Tax Incentives for Private Rental Affordable Housing Development

Adequate tax incentives could also encourage private developers to develop affordable houses under a lease model i.e. under which all units of the projects would be leased and not sold. Towards this, any of the following two models could be considered:

- **Deduction under Section 35 AD (5) (ac):** In line with the recommendation³⁸ made by the Affordable Housing Task Force, deduction under 35 AD (5) (ac) could be made available to private developers for the entire capital expenditure incurred by them on rental housing projects to make it a commercially feasible proposition for them.
- Alternatively, entire lease income from rental affordable housing projects could be exempted from tax. In this regard, adequate safeguards can be built with regards to:
 - the period for which lease can be given for a particular unit
 - the number of years before which the developer would not be permitted to sell any unit.
 - It may also be provided that such exemption would be available for a specified number of years post completion of the project.

³⁸ Affordable Housing Task Force (AHTF) on "Promoting Affordable Housing", November 2012

- It may also be provided that where the above benefits are taken by any developer under an affordable housing segment; they would not be permitted to take any deduction under section 35 AD (5) (ac).

Achieve Economies of Scale by Adoption of Innovative Construction Techniques

Unless adequate efforts are made in achieving economies of scale, construction costs can't be minimised in case of public as well as private affordable housing development. Design standardisation coupled with use of low cost technologies and bulk material procurement strategies can immensely benefit affordable housing projects.

Standardise Building Norms to Promote Design Standardisation

For affordable housing projects, architects and builders should be encouraged to adopt scalable and standardised designs which allow for minor customisation based on the requirements of the project. Hence, it is imperative to revise building standards and norms for affordable housing across different regions of the country. The National Building Code should have provision to encourage and facilitate this. These standards and norms should account for the size, contour patterns, soil type and the local statutory requirements of the region. Furthermore, design standardisation could also enable adoption of innovative construction techniques which expedite project execution thereby saving construction costs for the developer. Singapore's Housing and Development Board adopted a strategy of standardization by building prototype flats and blocks to facilitate rapid construction of affordable housing units³⁹.

Low-cost Construction technologies

By leveraging on innovative and low-cost technologies, such as pre-fabrication, developers can construct affordable houses quickly and cost-effectively. Although, pre-fab materials are 15-20 percent⁴⁰ costlier, developers would gain from the dual benefits of higher efficiency and lower labor cost. In Europe and Middle East, use of precast concrete and engineering homes technology has enabled certain developers in saving up to 64 percent of the total man hours needed using conventional methods⁴¹.

Recently, a 10-storey building was constructed within 48 hours in Mohali, Punjab using pre-fabricated material⁴². This case has illustrated the benefits that could be achieved by using emerging construction technologies for development of affordable housing

The following illustration highlights the key features of some of the emerging technologies which could be considered for affordable housing projects:

³⁹ Affordable Housing, From those who understand the potential of 1 Sq. Ft., ICICI Property Services, September 2009

⁴⁰ 'Factory-made Homes', Business Today, February, 2012

⁴¹ Developers adopting precast concrete and engineering homes technology, The Economic Times, 9 June 2012

⁴² Punjab entrepreneur sets up 10-storey building in Mohali in 48 hours, The Times of India, 1 December 2012

Emerging Technologies for Housing and Building Construction

Technology	Materials Used	Key Features
R-Panels - Panel Building System	Meshes manufactured using high resistance steel bar of 2.5–5 millimeter (mm) diameter, self-extinguishing polystyrene core and chipping concrete.	<ul style="list-style-type: none"> This building system is a load bearing wall construction which is seismic resistant and thermally insulated. Buildings of any typology and architectural structural ranging from most simple to most complicated ones could be constructed. The base element of this system is a modular panel composed of two electro –welded galvanized steel meshes having diameter 2.5–5 mm are joined by connectors, in the middle of which is suitably shaped foam polystyrene plate. This polystyrene is self-extinguishing foam polystyrene which is used as disposable foam and as an insulating layer. EPS is made of carbon hydrogen and 98% air. Once the panels are installed, they are anchored and finished with the application of light concrete on both the sides. As a load bearing element, the double panels and the floors are finished during the installation with concrete of suitable grade placed into the slab ribs as well. In the case of non-load bearing walls, concrete plaster or even a pre-mixed one is applied for a thickness of at least 25mm.
Technology using expanded steel mesh panels, polystyrene beads & alleviated concrete	Expanded steel type of galvanized steel mesh panels, cast and expanded in continuous process from 1.6mm thick and 30 cm wide galvanized sheet coil and Alleviated concrete made up of cement, fiber, sand and expanded polystyrene beads (1-4mm).	<ul style="list-style-type: none"> This system is entirely an on-site construction process. The concrete base and the foundations of the structure are prepared in a conventional manner by regular, poured, heavy concrete or alleviated concrete. In order to get good thermal insulation and good comfort from ground, it is advised to use at least one layer of alleviated concrete. The galvanized steel mesh panels are tied to the soldered wire mesh and to the iron rods in the base and in the foundations and assembled in accordance with the design of the house. The complete skeleton of the construction along with the roof is formed by fitting galvanized steel wire studs horizontally and vertically into each other. Once this procedure is completed, alleviated or light concrete is injected with a special

		concrete pump. The injected walls are then finished, leveled and smoothen from both the sides.
Pre-stressed precast prefab technology	Cement concrete steel strands and reinforcing steel.	<ul style="list-style-type: none"> • The slabs, columns, beams, stairs, etc. are designed and manufactured in the factory shipped and erected at site. • The structural frame is commonly composed of rectangular columns of one or more storeys height. • The beams are normally rectangular, L-shaped or inverted T-beams. They are single span or cantilever beams, simply supported and pin-connected to the columns. • The joint between the floors elements are executed in such a way that concentrated loads are distributed over the whole floor. This system is widely used for multi storeys buildings.
Monolithic Concrete Technology Using Plastic Form Work	M20 grade concrete wall, slabs and HYSD reinforcement of Fe415/Fe500 grade.	<ul style="list-style-type: none"> • In this technology walls and slabs are cast in one operation and specially designed light weight form/moulds in concrete. Concrete is poured in forms and once after the setting of concrete takes place the forms are removed which gives box like cubical structure of the required architectural design. • This pre-designed formwork acts as some sort of assembly line production and enables rapid construction of multiple units of repetitive type.
Precast Concrete Panel	Cement, aggregate, sand with additives, welded mesh and plates, polystyrene core.	<ul style="list-style-type: none"> • These load bearing panels are made of rein enforce concrete with a polystyrene insulated core that varies in size from 40mm to 200mm depending upon the insulation requirements. • These panels are moulded in a specially designed steel moulds under control factory conditions. Then the panels are removed from the moulds and stacked vertically for curing. Power and water conduits are installed in the panels during production. • Due to cohesive structural design, this system requires only strip foundation for most of the buildings. The concrete panels can be designed with the strength of 5000 pounds per square inch (psi) so to have a stronger thinner and light weight panels as compared to concrete blocks or most poured concrete walls.

		<ul style="list-style-type: none"> • This system takes two hours to prepare foundation and three hours for the panels to set.
Industrialized 3-S system	Concrete, cellular light weight concrete slabs, precast column.	<ul style="list-style-type: none"> • This industrialized construction technology is based on factory mass manufactured structural prefab components conforming to norms of IS standards and BIS certification mark. • In this system, dense concrete hollow column shell is used in combination with pre-cast dense concrete beams. • The hollow columns are grouted with appropriate grade of in-situ concrete along with secured embedded reinforcement of appropriate size, length and configuration to ensure monolithic continuous resilient behavior.
GFRG/ Rapidwall Building System Technology	Gypsum plaster reinforced with glass fibers.	<ul style="list-style-type: none"> • This is a panel product suitable for rapid mass-scale buildings construction, was originally developed and used since 1990 in Australia. These panels are presently manufactured to a thickness of 124mm. • The main application is in the construction of walls, it can also be used in floor and roof slabs in combination with reinforced concrete. It is mandatory to provide embedded RCC horizontal tie beam over all the walls below the floor slab/roof slab. • The panels may be unfilled, partially filled or fully filled with reinforced concrete as per requirement. • These panels possess substantial strength not only as load bearing elements but also capable to resist earthquake and wind. Buildings up to ten storeys in low seismic zones can be designed with these systems. • GFRG building systems can be constructed only with technical support or supervision by qualified engineers and constructors.

Source: Presentation by Building Materials & Technology Promotion Council (BMTPC) on “Emerging Technologies for Housing and Building Construction”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

Long-term Supply Contracts and Bulk Purchase Strategies

To mitigate the risk of material price escalation, State Housing Authorities such as Maharashtra Housing and Development Authority (MHADA), which have the onus of developing public affordable housing, uses long-term supply contracts and bulk purchase strategies. Singapore's Housing and Development Board adopts such measures to ensure continuous supply of essential building materials at steady prices⁴³.

Promote Sustainability

Embracing sustainability in design and construction of affordable housing projects could result in multiple tangible as well as intangible benefits throughout the project lifecycle. According to the Indian Green Building Council (IGBC), in comparison to a conventional building, a Green Building can result in average energy savings of 20–30 percent in addition to average water savings of 40–50 percent⁴⁴.

To encourage construction of sustainable affordable houses, the Government must consider incentivising developers of certified Green Buildings. A developer could be allowed to apply for additional FSI of 5 percent if the project achieves a Green Building Certification or Rating from recognised institutes such as the IGBC.

Setup Robust Governance Mechanisms

To ensure that the EWS/LIG segments reap genuine benefits of the aforementioned efforts, it would also be important to setup robust governance mechanisms. In case of public affordable housing projects, the allocation criteria should be formulated in a way that it ensures only the most-needy households are eligible for affordable housing units. A monitoring agency such as the Hong Kong Housing Association⁴⁵, which has an extensive system for allocating units, could be set up to ensure this. These units could then be allotted via a transparent process (For e.g. draw of lottery) to ensure that the right beneficiaries have been identified.

Conclusion

There is no doubt that the Government of India has taken many steps in the right direction to make the housing dream of masses a reality. However, the scale of the problem necessitates more radical thinking on the part of the Government in its bid to involve the private sector and provide enabling environment to give much needed fillip to affordable housing development in the country. As exemplified by Rajasthan, adequate policy support from State Governments is a vital cog in the wheel. In addition, role of other stakeholders such as private developers, state governments, financiers and end-users are equally important. Adoption of a more social and 'beyond profit' mindset among private developers could provide innovative and scalable business models for affordable housing.

⁴³ Affordable Housing, From those who understand the potential of 1 Sq. Ft., ICICI Property Services, September 2009

⁴⁴ Presentation by Indian Green Building Council (IGBC) on "Green Buildings – Lessons Learnt", NAREDCO 11th Annual Convention on "Sustainable Housing for Masses: Introspection and Way Forward", December, 2012

⁴⁵ Making Affordable Housing Work in India, RICS, November 2010

Although affordable housing for all in India still has some distance to cover, an integrated and holistic approach from the concerned stakeholders would help the country in facing the daunting challenges.

About NAREDCO

National Real Estate Development Council (NAREDCO) was established as an autonomous self-regulatory apex national body in 1998 under the aegis of Ministry of Housing and Urban Poverty Alleviation, Government of India. The Founders included leading Public and Private sector companies like Housing and Urban Development Corporation (HUDCO), National Housing Bank (NHB), DLF Ltd., K Raheja Constructions, Unitech Ltd., LIC Housing Finance Ltd., HDFC Ltd. and PNB Housing Finance Ltd. etc. The housing and real estate sector in India and the allied industries hailed establishment of NAREDCO and visualized it as a single platform of Government, industry and the public to discuss issues relating to development and advocacy of policies and systems. NAREDCO was formed with the mandate to induce transparency and ethics in real estate business and transform the unorganized Indian real estate industry into a mature, professional and globally competitive industry.

The National Real Estate Development Council strives to be the collective voice of the real estate industry. It strives to be the leading advocate for developing standards for efficient, effective and ethical real estate business practices, valued by the stakeholders and viewed crucial for success. NAREDCO works to create and sustain a business environment conducive for the growth of the real estate industry in India, partnering industry and Government alike through advisory and consultative processes.

About KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. It operates in 153 countries and have 145,000 people working in member firms around the world. KPMG in India, a professional services firm is the Indian member firm of KPMG International and was established in September 1993. Its professionals leverage the global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. KPMG in India provide services to over 4,500 international and national clients in India. The Indian firm has access to more than 5,000 Indian and expatriate professionals, many of whom are internationally trained. It strive to provide rapid, performance-based, industry-focused and technology-enabled services, which reflect a shared knowledge of global and local industries and experience of the Indian business environment.





Recommendations of 11th National Convention of NAREDCO on "Sustainable Housing for Masses" held on 7 – 8 December 2012, at Vigyan Bhawan, New Delhi

The National Real Estate Development Council (NAREDCO), organized its 11th National Convention on Sustainable Housing for Masses on 7 – 8 December 2012 at Vigyan Bhawan, New Delhi. The Convention received overwhelming response. Approximately 800 participants from across the country attended the Convention. The participants of Convention included Central and State Govt. officials, real estate developers, institutional and retail investors, marketing personnel, consultants, academicians, students, housing finance institutions, research & analysis agencies, trade bodies etc. Approximately 50 senior officials from various departments of State and Central Governments were also present and made significant contributions.

The Convention was inaugurated by Shri Pranab Mukherjee, Hon'ble President of India. Shri Ajay Maken, Hon'ble Minister of Housing and Urban Poverty Alleviation, Govt. of India, was Guest of Honour. Hon'ble President called upon Govt. and private sector to work together and create environment and support system favourable for the development of urban infrastructure and housing to meet the growing need of existing and new migrants as urbanization was unstoppable in fast growing economy like India. Hon'ble Minister of Housing and Urban Poverty Alleviation advised private sector developers to take on affordable housing construction on mass scale to improve profitability and informed that his Govt. was serious on bringing more transparency and accountability in the sector through legislative and regulatory mechanisms.

Session 1 on Urban Planning – Need for New Approach was chaired by Shri Navin M Raheja, President, NAREDCO. Dr. Isher Judge Ahluwalia, Chairperson, ICRIER, Shri Susheel Kumar, Joint Secretary (Housing), Govt. of India, Dr. G S Sandhu, Principal Secretary, UDH & LSG, Govt. of Rajasthan, Shri Raj Singh Gehlot, Director, Ambience Developers and Infrastructure, Shri Ashok Soloman, Chairman, Chintels India Ltd., Shri R K Arora, CMD, Supertech Ltd. and Shri Sanjeev Dasgupta, President, ICICI Venture Funds were the speakers.

Session 2 on Challenges 4G-3R (Growth, Governance, Graft, Grievances and Rationalisation, Regulation and Redressal) was chaired by Justice S N Dhingra (Retd.), Member, Competition Commission of India. Shri Getamber Anand, MD, ATS Infrastructure Ltd., Shri J C Sharma, Vice Chairman & MD, Sobha Developers Ltd., Col. Arun Gupta, Executive Director, TDI and Shri Arun Mohan, Senior Advocate, Supreme Court of India were the speakers.

9Session 3 on Balancing Environment with Urban Growth was chaired by Shri Pranav Ansal, Vice Chairman & MD, Ansal API. It was a Panel Discussion and Panelists were Dr. Sudhir Krishna, Secretary, Ministry of Urban Development, Govt. of India, Shri Rajesh Arora, Vice Chairman, Arora Group, Shri P K Tripathi, President, Unitech Ltd., Shri Sunil Mantri, Chairman, Mantri Realty Ltd., Shri Rajan N Bandelkar, Director, Raunak Group, Shri Vidur Bhardwaj, Director, 3C Universal, Shri Tanmoy Tataghat, Director – Environmental Design Solutions, Shri R Damodaran, Director, Smarter Planet Solutions, ISA, IBM India Pvt. Ltd.. A Memorandum of Understanding (MoU) between NAREDCO and Indian Green Building Council (IGBC) for promoting Green Building movement in India was also signed.

Session 4 on Housing for Masses was chaired by Shri Sunil Mantri, Vice President, NAREDCO. Shri V P Baligar, CMD, HUDCO, Shri Ramamurthy, Director (Project), IREO Ltd., Shri P S Jayakumar, MD, Value and Budget Housing Corporation, Shri Abbas Master, CEO, Saifee Burhani Upliftment Trust, Shri V Satyanarayana, CEO, Aarusha Homes, Shri S B Dangayach, MD, Sintex Industries Ltd., Shri Neeraj Bansal, Director, KPMG India, Shri R Karikal Valaven, Secretary (Housing), Govt. of Andhra Pradesh and Shri S P Tripathi from Supertech Ltd. were the speakers.

Session 5 was a Panel Discussion in English on ‘Enabling Supply side Sustenance for Converging the Gap in Affordable Housing’, moderated by Ms Manisha Natrajan, Senior Editor, NDTV Profit. Panelists were Shri Navin M Raheja, CMD, Raheja Developers Ltd., Shri Anuj Puri, Chairman & Country Head, Jone Lang LaSalle, Shri R V Verma, CMD, NHB, Shri P S Jayakumar, MD, VBHC, Shri S K Chaudhary, Sr. ED, HUDCO Ltd., Shri Rajesh Arora, Vice Chairman, Arora Group, Shri Sunil Dahiya, Sr. VP, NAREDCO, Shri Ashok Khurana, Member Engineer, DDA and Shri Sandeep Ahuja, Sr. Vice President, Tata Housing.

Session 6 was also a Panel Discussion in Hindi on ‘Housing for Masses’, moderated by Shri Amish Devgan of Zee Business. Panelists were Shri V P Baligar, CMD, HUDCO, Shri Ashok Khurana, Member Engineer, DDA, Shri Anuj Puri, Chairman & Country Head, Jones Lang LaSalle, Shri Sandeep Ahuja, Sr. Vice President, Tata Housing, Shri Sunil Mantri, Chairman, Mantri Realty Ltd., Shri Navin M Raheja, CMD, Raheja Developers, Shri Sunil Dahiya, MD, Vigneshwara Developers and Shri Rajesh Arora, Vice Chairman, Arora Group.

Session 7 on ‘Fund Raising in Real Estate’ was chaired by Shri Sunil Dahiya, Sr. Vice President, NAREDCO. Shri R Karikal Valaven, Secretary, Housing Department, Govt. of Andhra Pradesh, Shri Rohit Singh, Vice President, Kotak Mahindra Bank Ltd., Shri Jimmy Olsson, Aldia Capital, Shri S P Tripathi, CEO, Supertech Precast Technologies Pvt. Ltd. and Shri Jayesh Kariya, Head Real Estate, KPMG were the speakers.

Session 8 on ‘Skill Development and Technology Upgradation’ was chaired by Shri Sachin Sandhir, MD, South Asia, RICS. Shri Parag Majmudar, Chairman, Ritman Infra Ltd., Shri Harpal Singh, CMD, Synergy Thrislington and Shri Alok Agrawal, Gamut Infosystems Ltd. were the speakers.

Valedictory Session was chaired by Shri Navin M Raheja, President, NAREDCO and Co chaired by Shri Sunil Dahiya, Sr. Vice President, NAREDCO. Shri Neeraj Bansal, Director Real Estate, KPMG presented the important outcomes of the Convention.

Convention Background

India's urban population registered a decadal growth of 32 percent rising from 285 million to 377 million between 2001 and 2011¹. By 2050, 900 million people will be living in Indian cities². The rapid pace of urbanisation owing to rural–urban migration is putting enormous strain on the urban infrastructure in the cities. As the urbanization continues, the major concern for India's urban planners is going to be the massive urban housing shortage, primarily for Economically Weaker Sections (EWS) and Low Income Groups (LIG). The total housing shortage estimated after 2011 census is 18.78 million³ predominantly for EWS and LIG.

Encouraging private sector participation in affordable housing, traditionally the domain of the government, could provide the answer to India's urban housing predicament. However, as things stand to-day, the real estate sector is facing considerable headwinds. Issues continue to persist in land availability and pricing, project approval and financing and mortgage loans for EWS and LIG, which make affordable housing projects unviable for private developers.

Making affordable housing work in India necessitates the active involvement of all the stakeholders. State and Central Government support in the form of liberal regulations and inclusive growth policies could provide the means for harnessing the full potential of affordable housing in the country. Steps such as establishment of single window clearance mechanism for project approvals and formulation of innovative micro mortgage lending models could encourage private sector involvement. The developers, on their part, may have to adopt innovative and low-cost technologies to deliver cost effective affordable houses.

Affordable Housing –Need of the hour

The rural–urban migration, post economic liberalisation, has resulted in rapid rise in India's urbanization which now stands at 31.2 percent⁴. The trend of migration from rural to urban areas is likely to continue as, during 2012-2050 the urbanization is likely to grow at a CAGR of 2.1 percent – double that of China⁵.

While concentration of people in urban areas has grown, there has also been an increase in the number of people living in slums and squatter settlements. Skyrocketing prices of land and real estate in urban areas have induced poor and economically weaker sections of society to occupy the marginal lands typified by poor housing stock, congestion and obsolescence. As a result, a substantial housing shortage looms in Urban India and a wide gap exists between the demand and supply of housing, both in terms of quantity and quality.

According to a report submitted by a technical committee to the Ministry of Housing and Urban Poverty Alleviation (MHUPA), India's urban housing shortage is estimated at nearly

¹ Census of India 2011; KPMG in India analysis

² Urban Infrastructure in India, FICCI, October 2011

³ Report of the Technical Urban Group (TG-12) on Urban Housing Shortage 2012-17, Ministry of Housing and Urban Poverty Alleviation, September 2012

⁴ Census of India 2011

⁵ Opportunities in an Urbanizing World, Credit Suisse, April 2012

18.78 million households in 2012⁶. It is not surprising that the economically weaker sections (EWS) and low income groups (LIG) constitute over 96 percent of this shortage as the majority of the housing stock built across urban India is beyond their affordability.

Traditionally, the onus of supplying affordable housing has been with public sector entities such as State Housing Boards and Development Authorities. However, in the last five years, the constructive policy initiatives of the Govts. have encouraged private developers to launch projects in the affordable segment. Such instances, however, are few as affordable housing development continues to be an unviable proposition for the developers.

Given the magnitude of housing shortage, it is clear that the lone effort of public sector and a few private players would not be sufficient to bridge the gap. If India is to achieve the goal of “Affordable Housing for All”, there is a need to realistically address the constraints faced by private developers and formulate policies that encourage their participation.

Real Estate Developer’s Constraints

A recent joint study⁷ by KPMG and NAREDCO has highlighted the following key challenges which are proving to be the main impediments for private participation in affordable housing development:

Unavailability of Urban Land

High population density in urban areas has triggered huge demand for urban land. There is growing need to revisit the government regulations which have created artificial land shortage and pushed up land prices in India. Without changes in development norms, the limited land available in urban areas will make it unviable for developers to take up affordable housing projects. Further, the substantial non-marketable urban land used by Government-owned entities could also be used more efficiently. A number of these land parcels are in centrally located areas. Authorities should make optimum use of these land parcels to prevent on-going proliferation of slums and squatter settlements, as also create additional housing stock for new migrants.

Delay in Project Approvals from Multiple Authorities

Estimates reveal that real estate developers are required to procure approvals from about 50 departments of central and state governments and municipal bodies. It has been estimated that delays in project approval adds 25-30 percent to the project cost⁸. Better co-ordination between multiple authorities dealing with permissions/approvals will encourage real estate developers to invest in the affordable housing segment. Currently, it takes nearly two to three years⁹ for a developer to commence construction after entering into an agreement for land purchase.

⁶ Report of the Technical Urban Group (TG-12) on Urban Housing Shortage 2012-17, Ministry of Housing and Urban Poverty Alleviation, September 2012

⁷ Bridging the Urban Housing Shortage in India, KPMG–NAREDCO, December 2012

⁸ Achieving Sustainable Growth in Realty, KPMG–CREDAI, December 2011

⁹ ‘Corruption and Transparency in Realty - The Reality’, infrawindow.com

Rising Construction Cost

Unlike premium residential projects where pricing is largely driven by land cost, pricing of affordable housing is primarily driven by the cost of construction. Construction costs nearly 50 to 60 percent of the selling price in affordable housing projects as compared to 18 percent to 20 percent¹⁰ in luxury projects. Contrary to land, where prices decline exponentially as projects move away from centrally located to peripheral areas of a city, fall in construction cost is gradual from luxury to low-income housing projects. Hence, construction cost minimization is vital for the viability of affordable housing projects.

Raw materials, such as steel, cement, sand, bricks, etc, have witnessed price escalation of 20-50 percent¹¹ in the recent past. Owing to the success of the National Rural Employment Guarantee Act (NREGA), the labour shortage in construction has also risen, impacting the construction cost due to rise in wages.

Financing Constraints of Low Income Groups

The current financing mechanism in the country is tilted towards servicing MIG & HIG segments. As a result, households falling under LIG and EWS categories find it difficult to secure formal housing finance. Commercial banks and other traditional means of housing finance typically do not serve low-income groups, whose income may vary with crop seasons, or is below the 'viable' threshold to ensure repayment, or who cannot provide collateral for loans. Further, housing finance companies (HFCs) are unable to serve the LIG and EWS categories owing to their inability to produce documents required for loan sanction. The loan market of INR 3-10 lakh is estimated at INR 1,100,000 crore¹². Despite this, less than 20 percent of the total INR 55, 200 crore worth of housing loans disbursed by HFCs in FY2011 were in the loan bracket of INR 3-10 lakh¹³.

Limited Financing Avenues for Developers

Besides buyers, real estate developers are also grappling with funding challenges. Banks have curtailed their exposure to real estate citing risk perception, leaving them to high cost finance options such as Non-banking Financial Companies (NBFCs) and Private Equity (PE) fundings as the only source of finance. Moreover, high cost of fund coupled with waning demand has disrupted the cash flow of developers forcing them to defer project launches, impacting supply.

Need to Relook at Laws and Building Guidelines

There is a growing need to revisit regulations such as Rent Control Act, which is proving to be a deterrent in the development of rental housing and redevelopment of areas with old properties. By revisiting development control and planning norms and old & archaic local

¹⁰ 'Urban housing shortage rising in India', The Times of India, 5 July 2012

¹¹ Achieving Sustainable Growth in Reality, KPMG-CREDAI, December 2011

¹² Micromortgages: A Macro Opportunity in Low-Income Housing Finance, Monitor Inclusive Markets, October 2010

¹³ Report on Trend and Progress of Housing in India, National Housing Bank, 2011; KPMG in India analysis

bodies building bye laws, many issues restricting supply and affordability could be addressed and planning made more realistic.

Lack of Skilled Manpower

India's real estate sector continues to grapple with the problem of skilled manpower shortage. This shortage can have an adverse impact on the delivery and cost of affordable housing projects. There is, therefore, a need to take up skill upgradation of construction workers on a large scale through organized and on job trainings, to cater for future demand of the sector.

Disputable Taxation Regime

Taxability of real estate transactions in India has always been a matter of dispute and litigation because of multiplicity of taxing agencies. Union Government, State Governments and Local Authorities are empowered to impose various indirect taxes on the developers¹⁴. There is a need to clarify whether 'the real estate property' is a product or service, then only the developers would be spared from the current double taxation regime. The Government also needs to revisit the non uniformity in stamp duties across the country. The stamp duty to be paid at the time of execution of the underlying instrument varies from 5 percent to 15 percent¹⁵ of the value of property in different States.

Recommendations – The Way Forward

Urban Land Planning – Make Affordable Housing a Priority

Holistic and inclusive urban planning with focus on land-use optimisation would catalyse affordable housing development in urban areas. Therefore, there is a need to integrate socio-economic planning with spatial planning. Appropriate zoning for affordable housing must be a mandate for Urban Local Bodies (ULBs) and Urban Development Departments (UDDs) in the master plans. The links between housing location, livelihood and transport can no longer be ignored. The country could learn from Singapore example, where public transport planning is linked with housing.

Additionally, there is a scope for better utilization of large parcels of land owned by government entities as the land parcels are centrally located and well connected to the existing infrastructure. These could be pooled and utilised for constructing affordable houses. Computerization of land records would enable better monitoring of the land bank available with states and cities. Subsequently, an asset management plan can be used to earmark land for affordable housing projects.

¹⁴ KPMG in India analysis

¹⁵ Achieving Sustainable Growth in Reality, KPMG-CREDAI, December 2011

Private Sector Development – Make it a Viable Proposition

Private real estate developers would participate actively and aggressively in this segment if it is made a viable proposition for them. A strong regulatory response coupled with adequate incentives and subsidies could make the economics work. Following are important recommendations in this regard:

Fast Track Approvals for Affordable Housing Projects

State Governments should consider introduction of single window online clearance mechanism for affordable housing projects which would facilitate clearance of projects within defined timelines. Furthermore, there is a need to simplify procedures and processes for land acquisition and conversion of agricultural land for urban uses.

Under its Affordable Housing Policy, 2009, the Rajasthan Government has introduced a fast track approval in 30 days for affordable housing projects¹⁶. Similar efforts have been made by cities such as Indore, Pune and Hyderabad to overcome systemic hurdles in building permit processes. The ‘Green Channel’ initiative of Greater Hyderabad Municipal Corporation (GHMC) helps in incentivizing development, eases grant of building permissions and introduces transparency and accountability¹⁷. The adoption of the automated building plan approval procedure by the Pune Municipal Corporation has reduced the time required for sanctioning building plans to 21 days from the earlier 45-50 days¹⁸. Hence, to expedite affordable housing development, establishment of a ‘single window’/ fast track/online approval procedure must be a priority for other state governments as well.

Floor Space Index (FSI)/Floor Area Ratio (FAR) Incentive

To augment supply of affordable housing, State governments should use FSI as tool. This will also enable private developers in bringing down the cost of land per housing unit. Land scarcity in urban areas has driven International cities such as New York and Shanghai to have an FSI of over 10¹⁹. Given this, there is huge scope for raising the FSI in Indian cities, which have an average of 2²⁰.

Rajasthan Govt. allows 0.5 percent additional FAR for timely completion²¹ and Transfer of Development Rights (TDR) which allows use of unutilized FSI in other projects, in addition to doubling the normal FAR for Affordable Housing projects.

¹⁶ Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December 2012

¹⁷ Building Permissions Within 4 Days, www.fullhyd.com, 20 October 2010

¹⁸ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

¹⁹ Higher FSI not enough, better infra a must: Builders, Business Standard, 9 April 2012

²⁰ Exclusive! Minister hints at more FSI, says it will rid cities of slums, DNA, 28 November 2011

²¹ Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

Rajasthan model could be emulated by other states. To ensure that the extra FSI does not choke the existing infrastructure, developers could be given the responsibility to upgrade them or authorities could charge extra EDC for doing the same.

Waiver of Fees and Charges

The Rajasthan and Andhra Pradesh States provide several concessions on development related charges to encourage private affordable housing development. While Rajasthan offers waiver of External Development Charges (EDC), agriculture land use conversion charges and building plan approval fee²², Hyderabad Master Plan provides waiver of fees and other charges for affordable housing developments to the tune of 25 percent for LIG housing and 100 percent for EWS housing²³.

EDC charges are quite high in certain Indian states and render many projects unviable²⁴. Concessions on development related charges by State Governments could give fillip to affordable housing development and attract more private investments.

Service Tax Exemption

Under the ‘Affordable Housing in Partnership (AHP)’ scheme, construction services relating to residential dwellings and low cost mass housing upto 60 square meters carpet area are exempted from payment of service tax²⁵. The Union Government must consider extending this benefit to houses of upto 60 sq.m carpet area developed by private developers on private land. It is estimated that such a concession could lower the project cost by 3.5–4.5 percent²⁶.

Provide Infrastructure Linkages by Using Proceeds from Sale of Land

Social upliftment could be achieved through affordable housing only when the required infrastructural linkages are provided by the State Governments. Parallel development of physical infrastructure like road, drainage, transport, water supply, sewerage disposal, electricity etc and social infrastructure like schools, hospitals and commercial centres etc. are critical for the success of such projects.

To ensure parallel development, many countries use proceeds from sale of land to provide infrastructure linkages. A case in point is Hong Kong where parcels of public housing land are tendered to qualified private sector developers and the proceeds from these parcels are used to cross subsidise the associated infrastructure and transit investments²⁷.

²² Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

²³ Affordable Housing in India, Jones Lang LaSalle, June 2012

²⁴ Will India Be A Fallen Angel, The Times of India, 1 December 2012

²⁵ Union Budget to provide impetus to affordable Housing : Kumari Selja, Press Information Bureau, 16 March 2012

²⁶ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

²⁷ Making Affordable Housing Work in India, RICS, November 2010

Alternate Sources of Funding for Developers

As mentioned earlier, in the current scenario developers are dependent on private sources of funding. This constrains them from investing in affordable housing projects because of high cost of funds. Therefore, there is a need to develop new financing avenues for affordable housing projects.

Although Foreign Direct Investment (FDI) Policy on Housing permits 100% foreign investment, there is very little investment in affordable housing segment. Therefore, there is a need to liberalise the policy further to encourage FDI in affordable housing projects. Similarly, more needs to be done to encourage the use of External Commercial Borrowings (ECBs) for low cost affordable housing projects. Below are some of the measures which could encourage FDI and ECB in Low Cost Affordable Housing Projects:

Financing Mode	What could be done?
FDI Policy on Housing	<ul style="list-style-type: none"> • The current requirement of minimum built up area of 50,000 sq.m could be brought down to 20,000 sq mtr. • The minimum investment for joint ventures with Indian partners could be brought down from the current USD 5 million to USD 1 million.
ECB for Low Cost Affordable Housing Projects	<ul style="list-style-type: none"> • The aggregate amount of USD 1 billion appears to be small. Hopefully the limit will be increased in future to meet the growing demand of the sector. • The two-level approval procedure i.e. first from the National Housing Bank (NHB) and thereafter from Reserve Bank of India (RBI) needs to be simplified and suitable time limits for processing of applications by the NHB and RBI fixed to facilitate quick and successful implementation of the scheme.

Source: KPMG Analysis

Infrastructure Status

Affordable Housing and Integrated Township development would be essential to cope with the urbanisation pressure faced by the country. However, despite being an essential social infrastructure requirement, Affordable Housing is yet to be included in the Harmonized Master list of Infrastructure. Granting Infrastructure status would assist in opening certain additional funding avenues for the affordable housing segment in addition to direct tax benefits. For example, such a move would attract funds from insurance companies, which are mandated to invest 15 percent of their funds in social and infrastructure sector (as per IRDA regulations)²⁸ as also qualify for raising fund through tax free infrastructure bonds.

²⁸ Bridging the Urban Housing Shortage in India, KPMG–NAREDCO, December 2012

Direct Tax Incentives

Section 80-IA

Affordable housing upto a carpet area of 60 sq.m should be brought under the purview of section 80-IA of IT Act 1961. The tax exemption available under sub-section (4) will incentivise private developers who would then be eligible for a deduction equal to 100 percent of the profits and gains derived from affordable housing projects for ten consecutive assessment years.

Section 80 IB (10)

Under Section 80 IB (10) of the IT Act, income tax deductions were available to developers, whose housing projects were approved on or before 31st day of March, 2008. The Government should consider reintroducing this tax exemption and make it applicable for projects sanctioned after 31st March 2008, at least till 2018. If need be, the size of the units eligible for the benefit could be limited to upto 60 sq.m²⁹, in line with the definition of affordable housing prescribed by the Affordable Housing Task Force.

Section 35 AD

It is also vital to streamline and liberalise the existing provisions of Section 35 AD of the IT Act to enable private developers to benefit from the tax deduction available on capital expenditure on Affordable Housing projects. The following illustration highlights the key provisions, issues and recommendations for Section 35 AD:

Tax Concessions for Affordable Housing under Section 35 AD of the IT Act

SN	Particulars	Provision/Issues/Recommendations
1	Provisions of Section 35 AD	<p>Section 35 AD of the Act allows deduction for capital expenditure (excluding expenditure on land/ goodwill/ financial instruments) incurred '<i>wholly and exclusively</i>' for the purposes of any <i>specified business</i> carried on by the assessee. The deduction is available subject to satisfaction of anti-abuse conditions.</p> <p>Under this section, if commencement of operation is on or after 1st April, 2011 but before 1st April, 2012, the deduction at the rate of 100 percent of the capital expenditure is available, whereas, if commencement of operation is on or after 1st April, 2012, deduction at the rate of 150 percent of the capital expenditure is available.</p> <p>Deduction under this section is available on happening of following event (whichever is later)</p> <p>(a) being the year in which the capital expenditure is incurred; or</p>

²⁹ Affordable Housing Task Force (AHTF) on "Promoting Affordable Housing", November 2012

		(b) being the year of commencement of operations.
2	Related provision : Section 73A of the IT Act	Any loss of the specified business is not allowed to be set off except against the profits & gains (if any) of any other specified business and to the extent such loss is unabsorbed, it shall be carried forward for set-off against profits & gains (if any) of other specified business in the following assessment years
3	Issues around Section 35 AD faced by Affordable Housing Developers	<ul style="list-style-type: none"> • Deduction is available to the assessee engaged in the specified business. Section 35 AD (8) (c) (vii) of the Act defines specified business to include developing and building a housing project. It is not clearly spelt out to say deduction would be available to developer only or it would be available to contractor where developer is not carrying out actual construction activities. <p>In redevelopment project, society acts as a developer and actual construction is undertaken by the contractor. In this scenario, whether deduction under this section would be available to construction contractor?</p> <ul style="list-style-type: none"> • The section provides for the deduction towards the pre-commencement capital expenditure only. • The loss of the specified business is allowed to be carried forward and set-off only against the profits & gains (if any) of any other specified business.
4	Recommendations	<ul style="list-style-type: none"> • Deduction should be available to companies engaged in constructing affordable housing projects using pre-fabricated and pre-cast or any other technology; • Deduction should be available to companies producing construction materials like blocks, panels, slab, walls, columns, toilet, staircase etc. used in construction of affordable housing projects using pre-fabricated and pre-cast or any other technology; • The loss of the specified business should be allowed to be set-off against the profits & gains of the business other than specified business.

Source: KPMG Analysis

Financial Empowerment of EWS/LIG Sections of the Society

Despite the sustained efforts of the Government, “Affordability” continues to be a concern for the target beneficiaries i.e. the EWS/LIG households. The following measures could help in demand boost and affordable housing development in the country:

Access to Micro Credit

Fundamental innovations are required in the traditional mortgage-lending model to help informal sector and self-employed people in LIG and EWS segment to avail housing loans. The Government could encourage effective financing through micro mortgages with the help of Self-Help Groups (SHGs) and other innovative financing mechanisms. This would ensure in making housing finance available to large sections of LIG and EWS who are deprived of mortgage loans from formal banking institutions. Flexible payment options should also be put into place, considering the fact that EWS/LIG households typically have variable income flows.

Stamp Duty Reduction

As opposed to other countries where stamp duty typically begins at 0 percent for low-value properties and gradually reaches 3 percent for high-value properties³⁰, stamp duty in Indian states vary from 5 percent to 15 percent³¹. To lower the final cost for the EWS/LIG sections, states such as Rajasthan, Madhya Pradesh (MP) and Uttar Pradesh (UP) have substantially reduced the stamp duty on EWS/LIG housing. While stamp duty in Rajasthan is INR 10 and INR 25 for EWS and LIG flats respectively³², in MP and UP INR 100 is charged towards stamp duty for EWS housing³³.

Priority Sector Lending

As mentioned earlier, housing credit continues to elude EWS/LIG household. No formal data is available at the national level to show the actual flow of bank credit to these sections. The Government and the RBI should, therefore, create a mechanism where banks are required to allocate certain portion of their loans and advances for the purpose of housing loans to EWS/LIG segments. The NHB can also take similar measures to ensure higher flow of credit from HFCs to the EWS/LIG sections.

Financial Literacy

Educational programs on financial literacy targeted at the EWS/LIG households could create more awareness and facilitate their decision making with respect to taking and repaying loans from formal establishments.

³⁰ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

³¹ Achieving Sustainable Growth in Reality, KPMG–CREDAI, December 2011

³² Presentation by G.S. Sandhu on “Rajasthan Initiatives: Focus On Sustainable Affordable Housing In Urban Sector”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

³³ Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012

Create Robust Public Private Partnership (PPP) Model

PPP projects can play pivotal role in bridging the gap between demand and supply of urban housing as they can be instrumental in attracting private capital for financially viable affordable housing projects. The Government and private developers can have a symbiotic relationship through the PPP model – wherein the Government can transfer the operations risk (construction and finance) to the private sector, which is better equipped to manage the same and the private players can leverage through PPP structure a robust revenue model that typically offer a good prospect of return on risk capital.

Under the Rajiv Awas Yojana (RAY), nine pilot PPP projects have been approved with a funding ratio of 50:50 between the developer and the state government of Andhra Pradesh, Madhya Pradesh and Rajasthan at a total cost of INR 470 crore. The government plans to develop 8,000 EWS housing units from these projects³⁴.

PPP in affordable housing, however, continues to be in a nascent stage and there is immediate requirement to provide an enabling environment by formulating investor friendly policies and instituting mechanism for fast project approvals. Institutionalising PPP best practices together with the following measures³⁵ could help in overcoming the shortage of housing in EWS and LIG categories:

- Deliverables required from the public sector partner should be front-ended
- Tie-up of key project resources such as land at the outset
- Avoid ambiguity in the contract terms that may lead to re-negotiation
- Finite timelines for decisions from public sector partner
- Need for conservative view on execution timelines – Project timeline should preferably be 3 to 4 years
- Institutionalise a viability gap funding mechanism under RAY for PPP projects based on appraisal of the finances and economics of each project.

Case Study: PPP Model for housing in Jaipur

To augment the growth of the real estate sector in the state, the Rajasthan Government has formalized Affordable Housing Policy, 2009, with focus on EWS/LIG/MIG through PPP

³⁴ Rajiv Awas Yojana: builders not too keen on rental housing, Live Mint, 28 May 2012

³⁵ Presentation by ICICI Venture on “Public Private Partnership: Issues for Consideration”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012; Affordable Housing Task Force (AHTF) on “Promoting Affordable Housing”, November 2012; KPMG Analysis

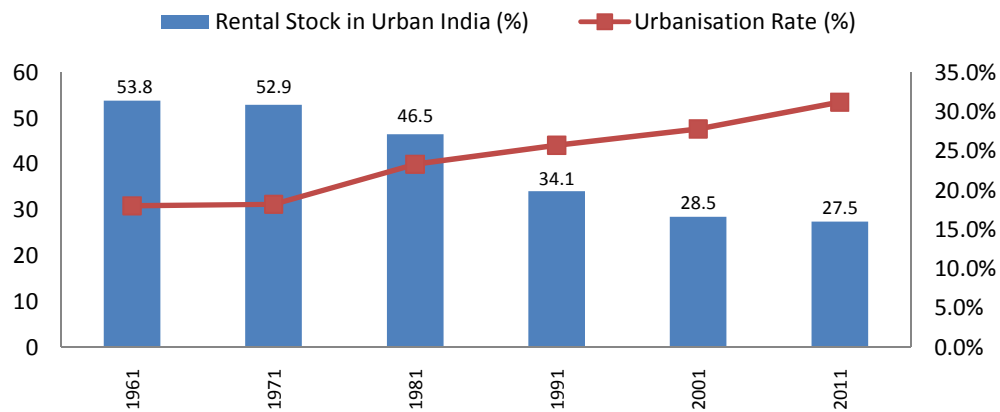
model. The objective of the policy is to promote investments in housing in Urban areas on PPP model. The new housing policy promotes PPP model and is beneficial for both the Developer and State Government. Key features of the policy are as follows:

- Housing Policy of the Govt. of Rajasthan promotes PPP
- 75,000 houses (60 percent of budgeted target) for EWS / LIG through PPP
- Locations: Global city, Neemrana, Greater Bhiwadi and New Jaipur
- Private Developer on Private Land:
 - Developer constructs G+3 EWS / LIG flats on 25-40 percent land owned by him
 - Flats handed over to Govt. at pre-determined price of INR 750 per sq. ft.
 - Developer gets additional FAR, twice the permissible limit on entire plot
 - Additional FAR can be utilised on remaining plot area or exchanged for TDR
 - Waiver of EDC, Plan approval fees, Conversion charges; lower stamp duty
- Private Developer on Govt. Land / Acquired Land
 - 50 percent of the land earmarked for construction of EWS / LIG flats
 - Bids invited, Developer offering maximum no. of (free) EWS / LIG flats selected
 - Developer free to construct and sell MIG / HIG flats on remaining 50 percent land
- Slum Redevelopment with participation of Private Developer.

Facilitate Penetration of Rental Housing in Urban Areas

Census of India figures suggest that India's share of rental housing stock has progressively declined with increasing urbanization. To promote rental housing there is an urgent need to amend the archaic Rent Control Act which is a key deterrent to rental housing development. Creation of social rental housing stock and provision of adequate tax incentives for private rental affordable housing development are other measures that could help in meeting to the demand for EWS/LIG rental housing.

Rental Housing Stock and Urbanisation



Source: National Housing Board; Census of India, 2011

Rent Control Reforms

Rent control reforms which adequately balance the rights and obligations of landlords and tenants are an imperative for promoting rental housing in the country. Archaic rent control laws in most States constrains landlords from charging fair market rent from the tenants which results in withdrawal of houses from rental market leading to reduced supply of affordable housing.

Gujarat Government has provided following exemptions³⁶ from The Bombay Rents, Hotel and Lodging House Rents Control Act, 1947 to reform the existing act and make it market friendly.

- Any premises constructed on or after the commencement of the Bombay Rents, Hotel and Lodging House Rents Control (Gujarat Second Amendment) Act, 2001
- Any existing premises which is self-occupied by the owner or vacant on or after commencement of the Bombay Rents, Hotel and Lodging House Rents Control (Gujarat Second Amendment) Act, 2001 and is let after such commencement.

While more long-term rent control reforms need to be considered, bringing in similar measures could encourage construction and development of rental housing stock in other states atleast in the short to medium term.

Social Rental Housing

Social rental housing in India has very low penetration unlike many developed economies which have emphasized on affordable or social rental housing that constitutes up to 20-30

³⁶ Presentation by S.B. Dangayach on "Shelter For All Through Rental Housing: Need For Bold India-Centric Reforms", NAREDCO 11th Annual Convention on "Sustainable Housing for Masses: Introspection and Way Forward", December, 2012

percent³⁷ of their housing stock. In these countries, the Government acts as a facilitator as well as an enabler by promoting social rental housing which is either provided by the Government or by limited or non-profit housing associations that utilize government incentives.

Country	Percentage of total housing stock*		Percentage of social housing stock by**	
	Social rental	Private rental	Pure public sector	Housing Associations (Limited profit /non-profit)
UK	20	10	54	46
Ireland	7	11	90	10
USA	3	29	31	69^
Australia	5	22	85	8
Canada	6	28	34	66
Austria	23	17	43	53
France	16	24	Some	90^
The Netherlands	35	12	1	99
Denmark	19	18		100^

Source: International experience in providing affordable housing, IDFC 2011

Note: Housing associations are for-profit, non-profit or limited profit organizations that build and/or manage low-cost or social housing

*Remainder of total housing stock is predominantly ownership

**The social housing stock includes both social rental and ownership units

^Include some for-profit associations, co-operatives, moderate rent agencies and regulated private landlords. Some associations have tenant shareholders

^Include some for-profit associations, co-operatives, moderate rent agencies and regulated private landlords. Some associations have tenant shareholders

The Mumbai Metropolitan Region Development Authority (MMRDA) has launched an affordable rental housing program for Low Income Groups. Although, the scheme has achieved limited success, other State Governments could try to improve upon the shortcomings of the program and make efforts to launch affordable rental housing schemes in their own states.

³⁷ International experience in providing affordable housing, IDFC 2011

Case Study: MMRDA Rental Housing Program for Low Income Groups

The Government of Maharashtra has appointed MMRDA as the implementing authority for Rental Housing Projects. The projects undertaken are of 'Vital Public Purpose' and first of its kind 'Slum Prevention Programme'. The salient features of the programme are as follows:

- MMRDA and few of the leading developers of Mumbai joined hands to provide rental housing to about 43,000 low-income families.
- The plan was to develop 525 acres of land in Virar, the northern suburb of Mumbai.
- The developer would construct the houses and hand it free of cost to MMRDA, which in turn will rent them out as its terms and conditions.
- These properties are built specifically for the purpose of renting and will be owned by real estate investment trusts (REITs) or corporate, and not by individuals.
- The scheme was expected to generate rental housing stock of about 2.58 lakh units in 3-4 years.
- The scheme met with limited success as it lacked the necessary enforcement and the required rental management.

Source: MMRDA, KPMG Analysis

Tax Incentives for Private Rental Affordable Housing Development

Adequate tax incentives could also encourage private developers to develop affordable houses under a lease model i.e. under which all units of the projects would be leased and not sold. Towards this, any of the following two models could be considered:

- **Deduction under Section 35 AD (5) (ac):** In line with the recommendation³⁸ made by the Affordable Housing Task Force, deduction under 35 AD (5) (ac) could be made available to private developers for the entire capital expenditure incurred by them on rental housing projects to make it a commercially feasible proposition for them.
- Alternatively, entire lease income from rental affordable housing projects could be exempted from tax. In this regard, adequate safeguards can be built with regards to:
 - the period for which lease can be given for a particular unit
 - the number of years before which the developer would not be permitted to sell any unit.
 - It may also be provided that such exemption would be available for a specified number of years post completion of the project.

³⁸ Affordable Housing Task Force (AHTF) on "Promoting Affordable Housing", November 2012

- It may also be provided that where the above benefits are taken by any developer under an affordable housing segment; they would not be permitted to take any deduction under section 35 AD (5) (ac).

Achieve Economies of Scale by Adoption of Innovative Construction Techniques

Unless adequate efforts are made in achieving economies of scale, construction costs can't be minimised in case of public as well as private affordable housing development. Design standardisation coupled with use of low cost technologies and bulk material procurement strategies can immensely benefit affordable housing projects.

Standardise Building Norms to Promote Design Standardisation

For affordable housing projects, architects and builders should be encouraged to adopt scalable and standardised designs which allow for minor customisation based on the requirements of the project. Hence, it is imperative to revise building standards and norms for affordable housing across different regions of the country. The National Building Code should have provision to encourage and facilitate this. These standards and norms should account for the size, contour patterns, soil type and the local statutory requirements of the region. Furthermore, design standardisation could also enable adoption of innovative construction techniques which expedite project execution thereby saving construction costs for the developer. Singapore's Housing and Development Board adopted a strategy of standardization by building prototype flats and blocks to facilitate rapid construction of affordable housing units³⁹.

Low-cost Construction technologies

By leveraging on innovative and low-cost technologies, such as pre-fabrication, developers can construct affordable houses quickly and cost-effectively. Although, pre-fab materials are 15-20 percent⁴⁰ costlier, developers would gain from the dual benefits of higher efficiency and lower labor cost. In Europe and Middle East, use of precast concrete and engineering homes technology has enabled certain developers in saving up to 64 percent of the total man hours needed using conventional methods⁴¹.

Recently, a 10-storey building was constructed within 48 hours in Mohali, Punjab using pre-fabricated material⁴². This case has illustrated the benefits that could be achieved by using emerging construction technologies for development of affordable housing

The following illustration highlights the key features of some of the emerging technologies which could be considered for affordable housing projects:

³⁹ Affordable Housing, From those who understand the potential of 1 Sq. Ft., ICICI Property Services, September 2009

⁴⁰ 'Factory-made Homes', Business Today, February, 2012

⁴¹ Developers adopting precast concrete and engineering homes technology, The Economic Times, 9 June 2012

⁴² Punjab entrepreneur sets up 10-storey building in Mohali in 48 hours, The Times of India, 1 December 2012

Emerging Technologies for Housing and Building Construction

Technology	Materials Used	Key Features
R-Panels - Panel Building System	Meshes manufactured using high resistance steel bar of 2.5–5 millimeter (mm) diameter, self-extinguishing polystyrene core and chipping concrete.	<ul style="list-style-type: none"> • This building system is a load bearing wall construction which is seismic resistant and thermally insulated. • Buildings of any typology and architectural structural ranging from most simple to most complicated ones could be constructed. • The base element of this system is a modular panel composed of two electro –welded galvanized steel meshes having diameter 2.5–5 mm are joined by connectors, in the middle of which is suitably shaped foam polystyrene plate. This polystyrene is self-extinguishing foam polystyrene which is used as disposable foam and as an insulating layer. EPS is made of carbon hydrogen and 98% air. • Once the panels are installed, they are anchored and finished with the application of light concrete on both the sides. • As a load bearing element, the double panels and the floors are finished during the installation with concrete of suitable grade placed into the slab ribs as well. In the case of non-load bearing walls, concrete plaster or even a pre-mixed one is applied for a thickness of at least 25mm.
Technology using expanded steel mesh panels, polystyrene beads & alleviated concrete	Expanded steel type of galvanized steel mesh panels, cast and expanded in continuous process from 1.6mm thick and 30 cm wide galvanized sheet coil and Alleviated concrete made up of cement, fiber, sand and expanded polystyrene beads (1-4mm).	<ul style="list-style-type: none"> • This system is entirely an on-site construction process. • The concrete base and the foundations of the structure are prepared in a conventional manner by regular, poured, heavy concrete or alleviated concrete. In order to get good thermal insulation and good comfort from ground, it is advised to use at least one layer of alleviated concrete. • The galvanized steel mesh panels are tied to the soldered wire mesh and to the iron rods in the base and in the foundations and assembled in accordance with the design of the house. The complete skeleton of the construction along with the roof is formed by fitting galvanized steel wire studs horizontally and vertically into each other. • Once this procedure is completed, alleviated or light concrete is injected with a special

		concrete pump. The injected walls are then finished, leveled and smoothen from both the sides.
Pre-stressed precast prefab technology	Cement concrete steel strands and reinforcing steel.	<ul style="list-style-type: none"> • The slabs, columns, beams, stairs, etc. are designed and manufactured in the factory shipped and erected at site. • The structural frame is commonly composed of rectangular columns of one or more storeys height. • The beams are normally rectangular, L-shaped or inverted T-beams. They are single span or cantilever beams, simply supported and pin-connected to the columns. • The joint between the floors elements are executed in such a way that concentrated loads are distributed over the whole floor. This system is widely used for multi storeys buildings.
Monolithic Concrete Technology Using Plastic Form Work	M20 grade concrete wall, slabs and HYSD reinforcement of Fe415/Fe500 grade.	<ul style="list-style-type: none"> • In this technology walls and slabs are cast in one operation and specially designed light weight form/moulds in concrete. Concrete is poured in forms and once after the setting of concrete takes place the forms are removed which gives box like cubical structure of the required architectural design. • This pre-designed formwork acts as some sort of assembly line production and enables rapid construction of multiple units of repetitive type.
Precast Concrete Panel	Cement, aggregate, sand with additives, welded mesh and plates, polystyrene core.	<ul style="list-style-type: none"> • These load bearing panels are made of rein enforce concrete with a polystyrene insulated core that varies in size from 40mm to 200mm depending upon the insulation requirements. • These panels are moulded in a specially designed steel moulds under control factory conditions. Then the panels are removed from the moulds and stacked vertically for curing. Power and water conduits are installed in the panels during production. • Due to cohesive structural design, this system requires only strip foundation for most of the buildings. The concrete panels can be designed with the strength of 5000 pounds per square inch (psi) so to have a stronger thinner and light weight panels as compared to concrete blocks or most poured concrete walls.

		<ul style="list-style-type: none"> • This system takes two hours to prepare foundation and three hours for the panels to set.
Industrialized 3-S system	Concrete, cellular light weight concrete slabs, precast column.	<ul style="list-style-type: none"> • This industrialized construction technology is based on factory mass manufactured structural prefab components conforming to norms of IS standards and BIS certification mark. • In this system, dense concrete hollow column shell is used in combination with pre-cast dense concrete beams. • The hollow columns are grouted with appropriate grade of in-situ concrete along with secured embedded reinforcement of appropriate size, length and configuration to ensure monolithic continuous resilient behavior.
GFRG/ Rapidwall Building System Technology	Gypsum plaster reinforced with glass fibers.	<ul style="list-style-type: none"> • This is a panel product suitable for rapid mass-scale buildings construction, was originally developed and used since 1990 in Australia. These panels are presently manufactured to a thickness of 124mm. • The main application is in the construction of walls, it can also be used in floor and roof slabs in combination with reinforced concrete. It is mandatory to provide embedded RCC horizontal tie beam over all the walls below the floor slab/roof slab. • The panels may be unfilled, partially filled or fully filled with reinforced concrete as per requirement. • These panels possess substantial strength not only as load bearing elements but also capable to resist earthquake and wind. Buildings up to ten storeys in low seismic zones can be designed with these systems. • GFRG building systems can be constructed only with technical support or supervision by qualified engineers and constructors.

Source: Presentation by Building Materials & Technology Promotion Council (BMTPC) on “Emerging Technologies for Housing and Building Construction”, NAREDCO 11th Annual Convention on “Sustainable Housing for Masses: Introspection and Way Forward”, December, 2012

Long-term Supply Contracts and Bulk Purchase Strategies

To mitigate the risk of material price escalation, State Housing Authorities such as Maharashtra Housing and Development Authority (MHADA), which have the onus of developing public affordable housing, uses long-term supply contracts and bulk purchase strategies. Singapore's Housing and Development Board adopts such measures to ensure continuous supply of essential building materials at steady prices⁴³.

Promote Sustainability

Embracing sustainability in design and construction of affordable housing projects could result in multiple tangible as well as intangible benefits throughout the project lifecycle. According to the Indian Green Building Council (IGBC), in comparison to a conventional building, a Green Building can result in average energy savings of 20–30 percent in addition to average water savings of 40–50 percent⁴⁴.

To encourage construction of sustainable affordable houses, the Government must consider incentivising developers of certified Green Buildings. A developer could be allowed to apply for additional FSI of 5 percent if the project achieves a Green Building Certification or Rating from recognised institutes such as the IGBC.

Setup Robust Governance Mechanisms

To ensure that the EWS/LIG segments reap genuine benefits of the aforementioned efforts, it would also be important to setup robust governance mechanisms. In case of public affordable housing projects, the allocation criteria should be formulated in a way that it ensures only the most-needy households are eligible for affordable housing units. A monitoring agency such as the Hong Kong Housing Association⁴⁵, which has an extensive system for allocating units, could be set up to ensure this. These units could then be allotted via a transparent process (For e.g. draw of lottery) to ensure that the right beneficiaries have been identified.

Conclusion

There is no doubt that the Government of India has taken many steps in the right direction to make the housing dream of masses a reality. However, the scale of the problem necessitates more radical thinking on the part of the Government in its bid to involve the private sector and provide enabling environment to give much needed fillip to affordable housing development in the country. As exemplified by Rajasthan, adequate policy support from State Governments is a vital cog in the wheel. In addition, role of other stakeholders such as private developers, state governments, financiers and end-users are equally important. Adoption of a more social and 'beyond profit' mindset among private developers could provide innovative and scalable business models for affordable housing.

⁴³ Affordable Housing, From those who understand the potential of 1 Sq. Ft., ICICI Property Services, September 2009

⁴⁴ Presentation by Indian Green Building Council (IGBC) on "Green Buildings – Lessons Learnt", NAREDCO 11th Annual Convention on "Sustainable Housing for Masses: Introspection and Way Forward", December, 2012

⁴⁵ Making Affordable Housing Work in India, RICS, November 2010

Although affordable housing for all in India still has some distance to cover, an integrated and holistic approach from the concerned stakeholders would help the country in facing the daunting challenges.

About NAREDCO

National Real Estate Development Council (NAREDCO) was established as an autonomous self-regulatory apex national body in 1998 under the aegis of Ministry of Housing and Urban Poverty Alleviation, Government of India. The Founders included leading Public and Private sector companies like Housing and Urban Development Corporation (HUDCO), National Housing Bank (NHB), DLF Ltd., K Raheja Constructions, Unitech Ltd., LIC Housing Finance Ltd., HDFC Ltd. and PNB Housing Finance Ltd. etc. The housing and real estate sector in India and the allied industries hailed establishment of NAREDCO and visualized it as a single platform of Government, industry and the public to discuss issues relating to development and advocacy of policies and systems. NAREDCO was formed with the mandate to induce transparency and ethics in real estate business and transform the unorganized Indian real estate industry into a mature, professional and globally competitive industry.

The National Real Estate Development Council strives to be the collective voice of the real estate industry. It strives to be the leading advocate for developing standards for efficient, effective and ethical real estate business practices, valued by the stakeholders and viewed crucial for success. NAREDCO works to create and sustain a business environment conducive for the growth of the real estate industry in India, partnering industry and Government alike through advisory and consultative processes.

About KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. It operates in 153 countries and have 145,000 people working in member firms around the world. KPMG in India, a professional services firm is the Indian member firm of KPMG International and was established in September 1993. Its professionals leverage the global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. KPMG in India provide services to over 4,500 international and national clients in India. The Indian firm has access to more than 5,000 Indian and expatriate professionals, many of whom are internationally trained. It strive to provide rapid, performance-based, industry-focused and technology-enabled services, which reflect a shared knowledge of global and local industries and experience of the Indian business environment.

