

Trends in Affordable Housing Financing In India

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ABSTRACT

Affordable housing finance scheme is imperative to fulfil the objective of owning a house for every household in India. The overall shortage of housing is staggering, especially in urban India due to population growth, urbanisation and multiplication of nuclear families. Affordable housing finance is about accessibility of buyers to get housing finance. The aim of affordable housing finance is to increase the housing loans and thereby reaching maximum of households without own houses. This paper gives an overview of trends in affordable housing market in India, focusing primarily on opportunities and roadblocks in housing finance for developers, consumers, and providers of capital besides presenting the favourable macro factors influencing the growth of AHF in India.

Keywords: population growth, urbanisation, nuclear, staggering

1. INTRODUCTION

India has become the most populated country in the world having 1.43 billion in mid of 2023 which is 17.76 per cent of the global population. Rapid urbanisation and increasing population expected to drive the demand for housing in India. Between 2001 and 2011, the number of households in India increased by 60 million and the number of houses went up by nearly 81 million (Census of India, 2011). However, there is a shortage of almost 20 million homes because of the reasons that most builders take care of the needs of the middle and affluent population along with spiralling home prices beyond the reach of common man. Beside these, some of the structural issues like high gestation period of housing projects, inadequate and costly capital, rapidly increasing land and construction costs, high taxes and unfavourable progress norms are blocks restricting the expected growth in housing stock. This paper gives an overview of trends in affordable housing market in India, focusing primarily on opportunities and roadblocks in housing finance for developers, consumers, and providers of capital.

2. Housing Shortage in India

The overall shortage of housing is at a staggering level of 62.5 million houses as per the Twelfth Five Year Plan. This is mainly due to the increasing number of nuclear families and rapid growth of urbanisation in India. Table 1 gives the shortage of urban housing according to different socio-economic groups.

Table 1: Urban Housing Shortage Split among Socio-Economic Groups (2012) - million

Category	Urban Housing Shortage	(In %)
EWS	10.55	56.2
LIG	7.41	39.5
MIG & HIG	0.82	4.3
Total	18.78	100

Note: 2012 Estimates;

Source: Ministry of Rural development, Ministry of Housing and Urban Poverty Alleviation National Buildings Organisation; Planning Commission, CRISIL MI&A

According to the estimates of the Twelfth Five Year Plan, the shortage of housing in urban India remain at 18.78 million. The shortage of housing is the maximum among economically weaker section (EWS) accounting for 56 per cent. Lower Income Group (LIG) having a housing shortage of 39.5 per cent of the total housing shortage in urban regions. The shortage of housing in the rural India comprising various segments of the society at 43.13 million. The plan document revealed that the housing shortage in India has increased over the years. The RBI-appointed Committee on the Development of housing finance securitisation market projected that the housing shortage estimated to increase to 100 million units by 2022. Most of the housing shortage will be among the Lower income group (LIG) and Economic weaker

section (EWS). Only a small proportion of 5-7 per cent of the housing shortage come from middle income group. The Committee estimated that for addressing the entire housing shortage it requires an estimated allocation of Rs.50 trillion to Rs.60 trillion.

As reported in Indian Census, 2011 that Indian population accounting for 1.21 billion. Of which the estimated total number of households was at 33.1 crores. During this period, 1.77 million homeless people are there in India which counts to the shortage of 18.78 million houses in the country. There has been an increase in the housing stock, although India has been facing the problem of housing shortage for a long time; and hence, affordable housing has big scope in India. (censusindia.gov.in, 2018).

3. Definition of Affordable Housing Finance

Many dimensions of housing affordability is turned in literature to several definitions of affordable housing finance.

Howenstein (1983) suggests a modest way to define affordability by connecting household income to household expenditure and therefore affordability is the ability of the household to attain shelter through the payment of reasonable amount of income.

Fallis (1986) extended Howenstein's definition by elucidating the meaning of reasonable amount. This definition distinguishes housing and non-housing expenditure thereby defined affordability with perfect distinction to each kind of expenditure. Households can manage to pay for housing costs if that do not take an undue share of household income leaving with sufficient income to meet other basic necessities of life. Later Fallis (1986) clarified that there is a need to mention what decent accommodation is.

Maclennan and Williams presented another definition dealing with decent housing that fetches government privilege to define affordability. Affordability means securing some basic standard of housing at a price which does not impose unreasonable burden on household incomes. Bramley (1990) presents more precisely to the above definition by including the concept of poverty standard by comparing it with the housing cost burden reflecting excessive expenditure on housing. Such households occupy housing that satisfies well-established standards of adequacy which leaves them with enough income without dipping below the poverty level.

Galster and Lee (2020), Haffner and Hulse (2021), and Ezennia and Hoksara (2019) in their papers have made a systematic review of housing affordability. They document visited the historical origins and viewed the application of the affordability concept. Ezennia and Hoskara (2019) classified the definitions depending on whether the focus is only on economic, socioeconomic, or social, economic, and environmental aspects. Overall, housing affordability is concerned with the ability of the household to afford decent housing without facing financial hardships.

While using the criteria in policy making, it requires operationalisation and correct measurement so it is can be applicable to a wider range. The notion of affordable housing finance differs from continent to continent, country to country and even state to state especially in terms of coverage areas. Affordable housing finance in a developed nation can be different from the meaning of the term in a developing nation. The concept "affordable", is a relative notion that could have different meanings for different people based on their income levels. Hence there is no unique definition for affordable housing. For example, the task force on promoting Affordable Housing of MHUPA has defined "Affordable housing refers to any housing that meets some form of affordability criterion, which could be income level of the family, size of the dwelling unit or affordability in terms of EMI size or ratio of house price to annual income" (High Level Task Force on Affordable Housing for All, December 2008).

Affordable housing finance is a kind of financial service extended to households with limited finance to make house ownership. The gap between affordability and the actual cost of the house is bridged by loans, subsidies or funds from government programmes. These loans are usually at lower interest rates with longer repayment periods, to ensure affordability for borrowers. This is mainly essential in urban areas, where builders make housing unaffordable for many.

Affordable housing finance is about accessibility of buyers to get housing finance. The accessibility of housing loan depends on some facilities such as easy procedures, convenient steps, engorging to use the government benefits such as reduced processing fees, less scrutiny fees and, marketing fees and affordable interest rates. The basic objective of affordable housing finance is to amplify the scope of housing loans to the needy households besides increasing the volume of mortgage loans. The aim of affordable housing finance is to increase the housing loans and thereby reaching maximum of households without own houses and also increasing the volume of mortgage loans for the purpose of improving housing facilities.

4. Public Policies and Programmes for Housing

The Government of India recognised the significance of affordable housing and therefore announced various initiatives to accomplish the dream of owning a house. Some of the schemes announced for this purpose include:

1. Credit-Linked Subsidy Scheme (CLSS)

Credit-Linked Subsidy Scheme is a segment of Pradhan Mantri Awas Yojana (PMAY) by providing interest subsidies to the economically weak. The beneficiaries of the scheme can avail considerable reduction in their home loan interest rate for the purpose of reducing the cost of borrowing. This scheme plays an important role in helping different income groups to own a house.

2. National Housing Bank (NHB)

National Housing Bank is the primary financial authority regulating and supervising housing finance companies, besides giving refinancing facility to those institutions. NHB is responsible for stable and efficient housing finance market through affordable housing finance options through a well-regulated sector.

3. Housing and Urban Development Corporation (HUDCO)

HUDCO is a financial institution owned by the government for financing affordable housing and urban infrastructure projects. It provides loans and grants to affordable housing projects to various public and private agencies.

4. Pradhan Mantri Awas Yojana (PMAY)

PMAY is an affordable housing initiative by the Indian government. It aims to provide housing for all, particularly targeting economically weaker sections and low-income groups. It offers financial assistance, including interest subsidies, to eligible beneficiaries to make homeownership more affordable. The scheme is instrumental in addressing the housing shortage and promoting inclusive urban development. It's worth noting that the Rajiv Awas Yojana (RAY), which formerly had a similar objective, has now been subsumed under PMAY. Furthermore, PMAY was briefly discontinued but is now set to be reconvened, emphasizing its ongoing significance in addressing housing challenges in India.

The state governments also carryout various programmes in providing affordable housing to low income groups and weaker sections.

5. Affordable Housing Loan Market in India

The housing finance market in India has been growing at a CAGR of more than 10 per cent during 2019 to 2023 due to growing disposable income, increased housing demand, low interest rates and supportive measures taken by the government. Among the different agencies in the home loan market, public sector banks occupy 40 per cent of the total share followed by Housing Finance Companies, Private Banks, NBFCs and others in the percentages of 34, 20, 2 and 4 respectively.

India has a low penetration rate for housing finance which is an opportunity for lenders to expand their businesses, and the affordable housing further activate mortgage finance penetration in India. India witness acute housing shortage with majority of the demand is there in the lower-income segment. The growing focus on affordable housing finance is favourable to the potential homebuyers among the Low Income Group and Weaker Sections of the society.

Prime housing and affordable housing are the two broad classification of housing finance companies based on the average ticket size of loans. The ticket size of affordable housing is less than 25 lakhs whereas for the prime housing is more than Rs.25 lakhs. The affordable housing finance companies charge a premium rate of interest since the customers are risky and therefore the yields are higher and the cost of funds are low. Table 1 shows various particulars of key players in affordable and prime lending segments of housing finance.

Table 2: DuPont Analysis of Key Players in Affordable and Prime Segment

Particulars (FY23)	Affordable lending players				Prime lending players	
	APTUS	CANF	AAVAS	HFFC	LIC HF	HDFC#
Interest Income	16.5	8.9	11.4	12.2	8.5	8.0
Interest Expense	4.3	5.6	4.8	5.1	6.1	5.3
Net Interest Income	12.2	3.3	6.5	7.1	2.4	2.8
Other income total	1.1	0.1	1.8	1.2	0.1	0.8
Net Income total	13.3	3.4	8.3	8.3	2.5	3.5
Operating expenses total	2.6	0.6	3.8	2.9	0.4	0.4
Pre-provision profit	10.7	2.8	4.6	5.3	2.1	3.2
Provisions	0.5	0.1	0.1	0.4	0.7	0.3
Profit before tax and	10.2	2.7	4.5	5.0	1.3	2.9

exceptional items						
Profit before tax	10.2	2.7	4.5	5.0	1.3	2.9
Tax total	2.3	0.7	1.0	1.1	0.3	0.6
Reported Profit after tax	7.8	2.0	3.5	3.9	1.1	2.4
Adjusted Profit after tax	7.8	2.0	3.5	3.9	1.1	2.4

Source: Company, Systematix Institutional Research;

Note: # now merged with HDFC Bank

After 2010, many new players entered in the housing finance focussing mainly on the affordable housing finance. Earlier most of the large players do not enter in this segment because the borrowers have low income without a valid income proof. However, of late even the large HFCs enter in the affordable housing segment.

Affordable Housing Financing

Many institutions came up in India for the purpose of housing finance especially for affordable housing finance. The first specified Mortgage Company in India was the Housing Development and Finance Corporation (HDFC), which was established in 1977. For the purpose of promoting homeownership, HDFC started as a public-private partnership to give long-term housing loans to low and middle-income customers. Banks offer housing finance loans in three ways viz., direct lending to consumers, indirect lending by lending to State Housing Boards or housing finance institutions, or investments in mortgage backed securities. In the close end of 1980s, many housing finance companies (HFCs) similar to HDFC raised, from private limited partnerships and bank-sponsored companies to joint ventures with state governments. The spread of such HFCs directed to the need for an overall supervisory agency, and therefore the National Housing Bank (NHB) was formed as a subsidiary of the Reserve Bank of India (RBI) in 1988. It encourages housing finance for lower-income people by also specifically extending refinance support to HFCs lending to low-income households. Another main function of the NHB is to finance public housing projects, mainly slum redevelopment schemes for the LIG and EWS groups.

While India celebrating its 75th Independence Day, it was taken as a policy of the government to have a proper roof over every Indian family. "Housing for all by 2022" necessitated a dynamic public-private partnership and hence housing finance corporations and developers started forming new ventures exclusively for the housing of low-income people.

The government of India introduced long term housing finance to Economically Weaker Sections with fixed interest rate as Rural Housing Fund (RHF) and Urban Housing Fund (UHF). Most of the beneficiaries are included under informal income segment. The Union Budget 2018-19 encouraged affordable housing by dedicating Affordable Housing Fund (AHF) in National Housing Bank for low cost long term fund for financing affordable housing.

Urban Housing- more than 70 per cent of new job opportunities will be created in urban areas, attracting 218 million people towards urban India from 2011 to 2030 implying that every minute thirty Indians will leave rural India to find a home in urban India. A major share of urban population in India live in slums requiring the support of the government for housing. However, legal dilemmas, scarcity of land, inflation and other systemic problems act as the barriers to develop a full-fledged affordable housing finance. As per the Ministry of Housing and Urban Poverty Alleviation, in 2012-13, the Economically Weaker Sections (EWS) segment bear 56.2 percent and the LIG (Lower Income Group) segment 39.4 percent of the urban housing shortage ("Annual Report 2012-2013." Ministry of Housing & Urban Poverty Alleviation, Government of India. January 1, 2013).

6. LITERATURE REVIEW

Abhijith V, et. al., (2013) have taken the primary objective of their paper as to study the urban housing problem in India and to provide viable solutions. They identified the main reason for the insufficiency of low-cost housing is the insufficient attention by government and private sector to address this issue. The paper examines the business model of an NGO, Habitat for Humanity India to identify the different stakeholders and their roles and responsibilities. Based on the observations they proposed a model to solve the affordable housing problem.

Anindo Sarkar, et. al., (2016) in their paper, the Government of India's programmes for affordable housing in India is to provide the households who are unable to obtain loan from the formal housing finance market. They need direct support and to address many distortions that make housing finance unnecessarily expensive. Affordable housing finance is a major advancement over the previous approaches because the sensitivity of low cost housing development by exploiting locational value

appropriately, using of government land judiciously, reforming of titles and squatter rights, and to more efficient land use changes.

As it is stated in Manorama Year Book (1997) that "housing is an integral part of overall policy improvements of human settlements and economic development". India is in an urgent need of constructing houses to meet the huge shortage in the country. The problem of severe housing shortage demands the involvement of public as well as private sector in the construction sector for housing development.

Bansal, H.S., Taylor, S.F. and James, Y.S., (2005) indicated that India has been registering rapid economic growth in recent decades that gives additional purchasing power to the population as a result of that the demand for housing loan in the country is growing but it is important to support those people at the bottom of the pyramid to provide the necessary facility to own a house. The housing financial institutions and banking sector have to focus on affordable housing finance in this sector. Government has to identify the potential resource base for the system as a whole and to simplify the legal system with respect to risk management of housing finance institutions.

Deepti Pande Rana, et. al., (2016) emphasise that urbanization creates immense housing scarcity resulting in the growth of slums in India. The high density of population in urban areas resulting in scarcity of land, inadequate housing and congested mobility have stressed the existing basic necessities such as water, power and open spaces of the towns and cities. Development of large scale affordable housing is the need of urban India at present. The objective of affordable housing scheme is to provide adequate shelter to everybody, enabling people to buy and to rent. Affordable housing appears as a simple solution to current housing problems.

Dr K.N. S. Nair and S.G. Jayachandra Raj (1994) have discovered that "Kerala stands unique in the realm of growth and development" still, the state has lost their focus on social sector in the expansion of industrial and technological development.

Jingchun Lin, (2011) shows that the issue of affordable housing has become a debatable topic of in China. In western countries, the development of social welfare schemes have been taken a long time to set up, moreover, the public housing system is already matured, however, in most of Asian countries, the social welfare systems are still weak in relation to their large amount of potential beneficiaries. Many low-income people could not afford to own house since the minimum down-payment and the initial payment in real estate market are very high. Hence affordable housing is very difficult under these circumstances.

Keith and John (1980) offered different facets of problems related to housing and there is the significant relation between public housing policies and the strategic decisions related to advanced capitalist systems.

Krishnamachari (1980) in his article quoted from the National Housing Policy that "Shelter is a basic human need and as an intrinsic part of human settlement, is closely linked with the process of overall socio economic development". It is also revealed that housing is not only the place of residence but also the basic accommodation to fulfil most of the social needs of human being. Housing sector has the function of employment generation and an indicator of economic as well as social growth of a country.

Lahiry, S.C (1996) revealed that there is an urgent need of cost control over housing in India because rising cost of house construction is identified as the biggest barrier of owning a house by the lower and lower middle class sections of the society. He also has highlighted the requirement of introducing technology in construction sector and also the dire need of environment friendly and affordable housing constructions. It is one of the important conclusions in his study that housing industry in India has undergone drastic development with efficiency improvement and speed of construction.

Leelamma Kuruvilla (1999) directed the need for an appropriate National Housing Policy as well as new initiatives in housing finance like the one as affordable housing finance. She advocated that the government can change the legal frame-work for simplifying the process for housing finance. She also suggested that the role of active involvement of the Government in the housing sector is indispensable for providing house ownership to every eligible household.

M. Ravi Kanth, (2016) points that affordability is measured in terms of disposable income and the classification of affordable housing is in terms of cost of a house and the disposable income of a household. For the urban poor, the cost of affordable house is not to exceed five times the household's gross annual income and the EMI or rent is not to exceed 30 per cent of the household's gross monthly income. As a result, providing affordable housing is a daunting task, particularly when the cost of building material and land prices are on the increase. The supply and demand gap of low cost housing has been on the increase, since it is difficult to own a house within affordable limits. If housing is left to the market forces, builders will target the groups with a higher EMI. Lack of market support in favour of poor households, limits the ownership of house if not the opportunity of aspiring households, resulting in increasing financial stress, personal underachievement and societal costs.

Manjesh Srivastava, et. al.(2018)stated that low cost housing denotes to those housing units which are affordable tohouseholds having less than median household income. It depends on income level, dwelling size and affordability. The walls, floors and roofs are analysed based on the needs, increase the speed of construction and reducing the cost of construction.Low cost materials are used to reduce the cost of housing for low income groups. Owning a house by middle and lower income groups is important hence it is necessary to adopt cost effective, innovative and environment-friendly housing technologies. This paper compares the construction cost for the traditional and low cost housing technologies with the use of technology and materials as the cost of construction can be minimized.

Ramakrishnan N, et. al. (2018)focuses on four models of affordable housing development in India such as area-based models, agency models, partnership models and enterprise models. The striking structures of these models are explained using specific case projects. These models are related on a matrix so as to help the players in the adoption of similar models. The reproduction potential of these models is also deliberated.

Rangwala (1977), stressed the need of filling the gap in housing shortage which will be taking substantial duration to offer the housing facility to every family of India. This study also revealed the need of constructive planning and focused housing targets by the government agencies to build cost effective and affordable and better housing in India.

S Husain, et. al., (2018)opined that “Pradhan Mantri Awas Yojana”, to construct 20 million affordable housing units by the government is novel programme with a few challenges. The government spend at least one lakh rupees on each housing unit. This fund is mainly used to rehabilitate and improve living conditions of slum dwellers by providing affordable housing. Various challenges are removal or replacing of slums with low-cost sustainable construction. The main objective is to provide the information to the industry with an option of using low-cost housing that can effectively provide an alternative to conventional housing construction and help into improve the living condition of people in Indian slums.

S. Baqutaya, et. al., (2016)argues that housing is an important facility determining people’s wellbeing, the physical and mental health, education, employment and security. Still, so far the major challenge is housing issue particularly affordable liveable home; and failure to have housing will lead to a housing stress. This study presents a research on issues related to affordable housing among middle-income groups. It examines on how certain issues of housing affordability affect societal well-being. Using the accumulated data driven key findings indicated that three important housing issues faced by middle-income groups are housing price, housing loan and housing schemes’ policy.

Teicher.T and Wagenfuhrer. D (2012) have end up their conclusion that the global financial meltdown happened in 2008 was the disruptive phase in the global housing sector because of the faulty housing financial programme leading to clashes among the housing consumers and financial institutions. The relation between housing loan consumer and financiers was badly impacted by this economic reassess.

7. Objectives of the study

1. To study about classification of affordable housing finance company lenders.
2. To study the growth of AHFC housing finance loans across India.
3. To present the favourable macro factors influencing the growth of AHF in India.
4. To give recommendations to improve the housing facilities using affordable housing finance.

8. METHODOLOGY

The study is mainly based on the analysis of secondary data. The important secondary data sources for the study are company financial statements sourced from individual company websites and CareEdge Ratings, Basis data set of 16 leading HFCs operating in affordable housing finance space.

Classification of Affordable Housing Finance Company Lenders

Affordable Housing Finance Companies (AHFC) do not require license but they commenced with the regulated universe of housing finance lenders in India (Das, Karamchandani and Thuard 2018, Deloitte 2019). The origin of AHFC within the HFC-N license can be found in the liability side of the balance sheet, because HFC-N borrow in debt markets do not have deposits as a funding source.Table 3displays the license type and average outstanding housing loan sizes during 2016–2021 for lenders within the AHFC category.

Table 3: Average Outstanding Housing Loan Sizes at Select Known AHFC Lenders (INR, thousands)

	License	2016	2017	2018	2019	2020	2021
Aadhar Housing Finance Ltd	HFC-N	—	—	820	830	840	850
Aptus Value Housing Finance India	HFC-N	—	750	825	850	—	720

Ltd							
Gruh Finance India	HFC-N	739	752	783	819	—	—
Motilal Oswal Home Finance Ltd	HFC-N	—	900	854	850	880	860
Muthoot HomeFin Ltd	HFC-N	—	—	1,080	960	940	950
SvatantraMHFC	HFC-N	479	425	439	—	—	—

Notes: Gruh Finance India was acquired by Bandhan Bank in 2020 and so no longer reports on a non-consolidated basis.

Source: Company financial statements sourced from individual company websites.

Table 5 shows that all lenders are licensed as HFC-N. Moreover most of the average outstanding loans are below Rs.10 lakhs and the median outstanding loan amount is Rs.8.30 lakhs. The figures in Table 5 are in line with the average loan size of 26 AHFC balance sheets of Rs. 930,000 sourced by Das, Karamchandani, and Thuard.

In the last decade many housing finance companies emerged focusing on affordable housing segment including large HFCs setting up dedicated verticals. The borrowers in this segment have relatively low income often without a formal income proof. Even banks extended housing loans to Economically Weaker sections (EWS) and low income groups. The basic reason is to cover the underserved segment after getting the support from government. Since the long term growth position is positive, owing to favourable demographic dividend, tax sops and the policy of Housing for All, AHFC started growing.

9. Growth of AHFC Housing Finance Loans across India

In the last decade many housing finance companies emerged focusing on affordable housing segment including large HFCs setting up dedicated verticals. The borrowers in this segment have relatively low income often without a formal income proof. Even banks extended housing loans to Economically Weaker sections (EWS) and low income groups. The basic reason is to cover the underserved segment after getting the support from government. Since the long term growth position is positive, owing to favourable demographic dividend, tax sops and the policy of Housing for All, AHFC started growing. It is found that Affordable Housing Finance Companies (AHFC) recorded a swift growth within the housing finance market accounting for 6 per cent of the total. Though the housing finance market face fund shortages, AHFCs witnessed as the most fast growing sector among the housing finance market.

Covid-19 pandemic adversely impacted the growth of AHFCs in 2020 which continued in 2021 and 2022. While AHFCs observed a noteworthy bounce back in growth in 2022-23 with their portfolio expanding by 27 per cent year-over-year. The CareEdge Ratings forecasted a 29 per cent year-over-year growth rate for AHFC portfolios in 2024, and an estimated 30 per cent year-over-year growth in 2025. The positive performance of AHFCs is due to their relatively smaller share as compared to the traditional banking institutions, ability to penetrate unorganised markets and their skills in appraisals.

Table 4: Growth Momentum of AHFCs

Table 4: Asset management growth

Financial Year	On Book (per cent)	Off Book(per cent)	Assets Under Management (AUM) Growth (per cent)
2019	89	11	29
2020	86	14	20
2021	85	15	21
2022	85	15	20
2023	86	14	27
2024 p	86	14	29
2025p	85	15	30

Source: CareEdge Ratings, Basis data set of 16 leading HFCs operating in affordable housing finance space

AHFCs have 74 per cent of the loan forms housing loan however, they increasingly diversify across non-housing segment. Non-housing loan is mainly under loan against property (LAP) category and also collateral in the form of property. Therefore, the segment of housing loans decreased from 79 per cent in FY 2019 to 74 per cent in FY 2023 however, it is within the regulatory guidelines and within the regulatory threshold of RBI of 60 per cent.

Table 5: Rising Share of Non-housing Portfolio

Financial Year	Housing Loans (percentage share)	Non-Housing Loans (percentage share)
2019	79	21
2020	77	23
2021	75	25
2022	74	26
2023	74	26
2024 p	73	27
2025p	73	27

Source: CareEdge Ratings, Basis data set of 16 leading HFCs operating in affordable housing finance space

10. Favourable Macro Factors Aiding Growth of Affordable Housing

There are many macro-economic factors influence the growth of affordable housing schemes in India. Some of the important factors are discussed under:

Demographic Dividend

India at present enjoy the benefit of demographic dividend which will continue until 2055-56 This will encourage the scheme of affordable housing scheme due to increased demand for housing. This will create fresh opportunities for housing finance companies to meet the needs of the middle class young and growing population.

Size of the Household

According to the 2011 Census, the total number of households in India was 246.69 million, sharing 68 per cent and 32 per cent by rural and urban regions respectively. The average household size in rural and urban India stood at 4.9 and 4.8 persons respectively. Out of the total households 4 per cent have no exclusive rooms, 37 per cent have only one room, 32 per cent have two rooms, 14 per cent have three rooms and 13 per cent have four rooms and above. This shows the inadequacy of the housing scenario in India, however, these people also depend on affordable housing finance schemes for improving their housing facilities.

Rapid Increase of Nuclear Families

In the last few decades there has been an increase in the number of nuclear families due to the sub division of joint families for various reasons. Increased number of nuclear families both in urban and rural areas increased mobility of labour and employment opportunities besides increasing the demand for housing.

Urbanization

The percentage share of urban population in India has been rising due to migration from rural areas for education and employment. The urban population of India was at 508 million in 2022, registering a CAGR of 2.4 per cent from 2011 and the urbanisation levels increased from 31 per cent in 2011 to 36 per cent in 2022 translating into higher demand for housing in the urban areas. Rapid urbanisation caused rapid increase in the demand for affordable public housing. But the supply of public housing did not keep pace with the increase of urbanisation. This contributed to housing shortages in urban areas and also the proliferation of slum dwellings in the absence of affordable urban housing.

Increasing Per capita GDP

More than four-fifth (85 per cent) of the housing demand in India is from EWS and LIG. Increase in income will make them to afford at least the initial payments for a housing loan. Though the per capita income of India in nominal term increased from Rs.86,647 in 2014-15 to Rs.1,72,000 in 2022-23 at current prices still majority of the urban married couple live in single room tenements. Opportunities of income growth for the people in formal sector with low income or self-employed people as construction workers and vendors usually get loans under affordable housing segment.

Increased Financial Inclusion

Economic reforms and the subsequent banking and financial sector reforms in India followed by Social Banking and Priority Sector Lending (PSL) take the LIG and MIG GROUPS towards social banking. The idea of financial inclusion empowered these households to participate in the affordable housing scheme. The poor households in rural and urban areas are able to fulfil the dream of owning a house in affordable mode in the current banking because of the increased financial inclusion.

Expected Increase of Household Savings

Household savings in India have declined in India for three continuous years in 2024 mainly due to the housing and vehicle loans (The Economic Times, May 9, 2024). The declining household savings have implications for affordable housing finance. Increased household savings have a tendency to bring more beneficiaries under the affordable housing scheme.

Digitalisation of financial Services

Digitalisation enhances affordable housing by efficiency improvement, reducing costs and better accessibility. Digital payments addresses many challenges of housing like financial inclusion, transparency and sustainable development.

Pradhan Mantri Aawas Yojana (PMAY)

This scheme is giving incentives for the urban and rural population under PMAY-Urban and PMAY-Grameen. PMAY-Urban scheme intends to fill the supply-demand gap in the housing. On the supply side it offers incentives to economically weaker sections and low income groups and subsidies to slum development. On the demand side it gives credit linked subsidies to stimulate demand. PMAY-Grameen offers financial assistance and interest rate subsidy to those who do not a house of their own. Moreover the GST cut on affordable housing schemes, relaxation to interest rate subsidy on external commercial borrowing (ECB) and allowing to withdraw 90 per cent of the employees' provident fund (EPF) corpus help prospective home buyers to make the down payments. All these measures helped the homeless people to own a house under affordable housing finance.

The refining characteristics of the demographic, economic and social conditions of India, such as a rising population in the working age group, improving economic conditions due to the sustained economic growth, and government initiatives for affordable housing solutions creates growth of AHFC housing finance loans across India.

CONCLUSION

The affordable housing finance scheme empowers the low and middle income households to achieve house ownership. India has a substantial shortage of housing especially in urban areas leading to the sprouting of slums. The important reason for the housing shortage are population growth, urbanisation, division of joint families into nuclear families, etc. The positive performance of AHFCs is due to their relatively smaller share as compared to the traditional banking institutions, ability to penetrate unorganised markets and their skills in appraisals. The affordable housing finance sector has improved access to the lower income groups through government intervention and support, technological innovation and consumer's preferences. This model acts as a wonderful opportunity for achieving more inclusive housing market.

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