



## Housing Policy in India

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**Abstract:** In this paper we critique the Government of India's programmes for affordable housing in India, namely the Rajiv Awas Yojana and Housing for All 2022. We analyse the efficacy of these policies in being able to provide these sections of the population who are unable to avail housing from the formal market, both through direct support and most importantly in addressing the many distortions that have made the housing unnecessarily expensive, while taking away much of the value to consumers. We argue that while these programmes and policies are a major advancement over the previous approaches, they do not fully exploit the potential that is there in increased FSI, sensitivity of low cost housing development to exploiting location value appropriately, to use of government land judiciously, to the reform of titles and squatter rights, and to more efficient land use changes. They are also constrained by an inability to distinguish between what the markets can be coaxed to deliver and where state intervention becomes necessary.

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**INTRODUCTION:** Housing for very long in the post-independence period has had low priority. The logic of consumption if restricted would also enhance the supply of savings outflow from the household sector. Hence the state owned development finance institutions (DFIs) and the banks were restricted in lending for house construction. Indeed the HDFC was able to lend finance to households only because of its claim that it was not using public money (taxes or deposits) but was raising capital in the markets<sup>2</sup>. The same argument allowed Reliance to bypass the Textile Policy of 1956 which otherwise constrained all organised sector textile industry. It was only in 1980s with HDFCs operations and later with the LICs operations that finance to fund house construction could take place on any meaningful scale. HUDCO's focus was more on urban infrastructure and financing town and government authorities and parastatals to construct real estate other than housing and only marginally in housing. All that is history with the liberalisation brought in by the Narashima Rao government in 1991- 92 /92-93, and thereafter which freed banks and financial institutions (FIs) to make loans to individual households for house construction and purchases, and to builders to finance their construction. Over the dream run of the Indian economy from 2003 to 2008, the very high growth of over 8.5% per annum happened on the back of large investments in housing. The problem of affordable housing was a seemingly a government priority as evident in the rhetoric of many programmes of housing for the poor, the so called LIG housing areas in the master plans of many large and medium sized cities. LIG housing has absorbed significant public resources, but has thus far proved to be quite inadequate to address the problem of affordable housing. A few interesting developments of using private firms to build houses for the poor which the government then allocates have a better record in terms of quality and occupancy such as by the AP Housing Board have not been followed on the scale and quantum required to overcome the problem. Today when many regions hope to revive housing to lift the economy out of the recession, the problem of affordable housing has no ideological or doctrinaire difficulties, nor are there any significant limitations that come from the financing side. In this paper we examine the Government of India's programmes for affordable housing in India, namely the Rajiv Awas Yojana and Housing for All 2022, and bring out the core finding that in ignoring the structural limitations that arise out of the assumptions of urban planning, transport and infrastructure design in towns and cities, severe distortions with regard to land use and allocation in the country, besides the limitations in the design of these specific policies, the effectiveness in enhancing



affordability has been very limited. Scale and scope also continue to be limiting especially when one recognizes that affordable housing in late industrialising economies have come out of massive government commitment through public housing and measures to reduce the cost especially of land with high location value. planning with its material balances implied that important materials like steel and cement whose outputs were sought to be expanded greatly, had priority for use in the capital goods and infrastructure sectors, since the argument was made that the higher the growth rate of production of capital goods in a closed economy the ultimate growth rate of the economy would be higher. Being a final goods sector whose.

**CONTEXT:** India is witnessing rapid urbanization where the growth in the urban population is by almost 3% every year as a result of migration from small towns and villages (NSSO,2007) . Expanding urban population has thus made increasing the housing supply necessary. For a variety of reasons, the growth in demand is not being met by supply of housing units resulting in housing shortage in urban areas. The growth per se is not unusual as it is often made out to be since rapid urbanisation with the economic transformation is observed without almost no exception.<sup>3</sup> The housing “shortage” figures generally referred to in India by the government, and repeated by others is actually needs based. The housing shortage that is based on actual effective demand not being met has usually been missed in the discussions on housing. A UK Government paper on Estimating Housing Needs 2010, (Dept. for Communities and Local Government, 2010) reported the following as the major difference between the need and demand based shortage, “Need based – Shortfall from certain normative standards of adequate accommodation. Demand based – Quantity and quality of housing which households will choose to occupy given their preferences and ability to pay (at given prices).” Demand based estimation itself would not be as robust as in the case of goods and services that do not involve market failure. Land markets suffer from the hold –out problem, specific values, and values arising out of the use of other lands. Thus the aspect of location value (which arises out of the location of land relative to other lands and on the economic activities on these other lands) also prevents the market from efficient use and allocation. Some of these such as the hold out problem in aggregating land, can be overcome, but others can only be mitigated by regulation. Regulation when improper can often compound the problem and add further to the perversities in the market. This is the case in India. (Morris, Sebastian and Ajay Pandey 2010) . Therefore the cost price of housing for the same size and location value can vary greatly so that the demand based estimation is meaningful only if the supply prices reflect true costs and scarcities, and not high costs (as they do in India) on account of perversities in regulation, land allocation, etc. The Technical Group on Urban Housing Shortage for the Twelfth Five Year Plan (2012 – 17) defines housing shortage as comprised of the following components:

- Excess of households over the acceptable housing stock (people living in informal properties)
- Number of extra households needed due to congestion
- Number of extra households needed due to obsolescence
- Number of kutcha households that must be upgraded

**MARKET AND GOVERNMENT IN AFFORDABLE HOUSING:** Conceivably the solution to the problem of urban housing could be visualised via a two pronged approach. The first step would be to make formal housing cheaper, since it is well known that house costs are driven up by unaddressed or perversely addressed market failure, the “cost of improper regulation” and of poor governance. These happen especially through land whose “prices” embody the cost of regulatory failures, and hurdles and restrictions in land use. A key component of this entails reducing the land cost per unit of built up area. In India, restricted land use policies, lower FSI, land transfer



restrictions (increasing the transaction costs), and other such policies have led to an increase in the land prices. Appropriate policies can significantly reduce the cost per built up area and allow more people to avail housing through the formal market itself. (Morris and Pandey 2010).

There however, will be a certain section of the population who even with the most optimal regulation of housing and of land and its use, would still not be able to afford the basic dwelling unit.. These households being poor ought to be supported by the Government if they are to have access to basic housing . The cost outlay for such programmes will be much smaller than they are presently if the policies to make the market efficient are already been put in place. Otherwise, without this reform, the fiscal cost would be very large for even a modicum of coverage of the poor, and any universal coverage would be be out of question.

**CURRENT REACH OF THE FORMAL MARKET:** To estimate the demand for housing - conditional on the cost-, the income and income distribution would have to be known. Although income and its distribution<sup>5</sup> vary across regions we consider the case of Ahmedabad. We shall consider the present property prices and income distribution in Ahmedabad to illustrate the reach of the formal market.

**Land use policies:** There are various normative regulations put on housing development in the country pertaining to built-up space, plot sizes, parking spaces, etc. which cause unnecessary waste of land in many locations. These norms are not designed on practical basis and hence, they do not cater to location specific needs. See for instance Bertaud (1996) for detailed analysis. Some of the regulations that are placed on the housing construction in Ahmedabad are mentioned in Appendix VII. Such policies may be appropriate for some regions but having a blanket policy for all kinds of housing development may not be the best solution. In the current supply crunch scenario, policies that constrain the effective land use such as maximum of 45% ground coverage provide for artificial constraining of housing. They also leave vast amounts of improperly used land even in the metros which actually subtract greatly from social and public value.

**Land transfer policies:** There are various complications associated with land transfer policies. The various complex transactions that are needed for development of a township are cited in Appendix IX. From the table, it can be inferred that the construction of development site happens only after a number of steps which leads to unnecessary hurdles. The process of conversion of agricultural land into non-agricultural land is one of the more tedious processes. Also the stamp duty and registration process are expensive and lead to increase in housing prices. Moreover they are source of much discord and protest, since farmers would not be able to convert agricultural land to other uses, while the aggregator can resulting in vast rents being accumulated by the builders and fixers, and paid to officials in decision making. The various permissions from the Urban Development Department and the Revenue Department make the whole process slow and corruption prone. This whole maze of regulations and permissions lead to constraining of real estate supply.

**Non-Usage of Govt. Land:** A significant portion of the land occupied by the various government bodies is being wasted. According to initial estimates by the Department of Public Enterprises (Ministry of Finance, 2015b). 2.35 Lakh acres of surplus land lies with public sector undertakings (PSUs) which is completely non-productive currently. Similarly, Railways have 0.38 lakh acres of vacant land. Majority of the government surplus land that is wasted can be utilized for providing housing facilities. This is a measure that can be taken immediately for increasing the land supply. Application of GIS to accurately map existing Government land is an attractive option. Andhra Pradesh is actively pursuing the implementation of a GIS policy in the state (Govt. of AP, 2016).



**Non recognition of slums dwellers’ rights:** According to the 12th Five Year Plan report (Planning Commission, 2013), 3 million hectares of land have been declared as surplus of which 30% is caught up in litigations. This is compounded by other clandestine land transfers leading to illegal possession of pieces of land. In some cases, the plots allotted to various beneficiaries under the government policies do not have clear title. Since the cost of housing for even the lower middle classes is very high in areas with reasonable locational value (necessary for accessing the job markets), when slum clearance schemes provide for sites far away from the central places (with little or no locational value), and are not therefore meaningful options for the poor, who then have to live in new “illegal” spaces in urban places. An additional aspect is that the poor get pushed to the unregulated niches (ex-villages within cities). All these create a very large slum and chawl population in most large cities. As evidenced in the affordable housing policy in Brazil (Refer section on Sao Paulo) provision of some kind of legal tenure to squatters is instrumental in controlling urban squalor.

**FRAMEWORK FOR POLICIES ON AFFORDABLE HOUSING:** A policy on affordable housing should aim at two things:

**Improving reach of formal market:** This can be done through a coordinated approach that involves Increasing land supply.

- Using the vast amounts of land with the government especially in central places more efficiently with affordable housing besides public infrastructure having a larger claim on the same.
- Resolving land title issues by adopting a Torrens System and allowing squatters rights to some part of the land which are convertible to either actual occupancy rights or rights that are transferable to more appropriate locations for affordable housing.
- Increasing FAR/FSI which would have the most impact on value creating affordable housing. The fear of windfall gains to private owners of land suitably located to have higher FSI can be addressed through bid based FSI and / or rights transfer.
- Modify building bye-laws/ sanctions that are archaic in nature and make them more functional and efficient.
- Issuing tenure rights (sometimes transferable) to squatters, so that investments to improve the quality of life can take place in these properties.

**Conclusion:** There are clear rewards of providing legal tenure. Families that have their land title confirmed, or or have been granted a certificate recognizing their occupancy rights, can be asked to pay some taxes. Similarly, building rules can be set (and enforced) to prevent building collapse when the occupants have rights to the land. Regular streets, schools and clinics can be developed, attracting further investments in improvement by the dwellers. Also it's easier to reduce litter by organizing residents to bring their own household waste to collection points for city pick-up. But going the whole way continues to be difficult. Even in Sao Paulo, while the city government works hard to give land tenure, property rights are only conceded by law once this possession is recorded in a register office. The complete process has occurred only with a few properties. In most cases dwellers received a document without clear legal value.

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