



# A Study in the Scope and Impediments of Affordable Rental Housing in India

<sup>1</sup>Pulkit Choudhry, <sup>2</sup>Riddha Basu, <sup>3</sup>Mohd. Suhail Khan

<sup>1</sup>Student, <sup>2</sup>Assistant Professor, <sup>3</sup>Research Associate

<sup>1</sup>School of Construction,

<sup>1</sup>School of Built Environment, RICS, Amity University, Noida, India

**Abstract:** As in many other developing countries, in India, too, inadequate provision of affordable housing in the urban areas has resulted in an acute housing crisis for the rapidly growing urban population. One of the primary factors that have further aggravated the existing housing problems of India, is the general lack of emphasis of the government on the provision of affordable rental housing. The overarching aim of this research is to study the present situation of affordable rental housing in the primate cities of India and analyze the drivers and barriers in the provision of the same. For this, a detailed literature review and secondary data mining have been done. Besides, carefully designed semi-structured interviews have been conducted for 10 eminent industry leaders who are closely associated with various stakeholder groups of the Indian housing value chain. It has been discovered that some of the primary constraints that have hindered the development of affordable rental housing stock in India include lack of government support; unavailability of suitable PPP (Public-Private Partnership) frameworks; requirement of huge capital investments; low rate of return and difficulties faced by the private developers in the financing of rental housing projects. However, with appropriate policy interventions coupled with political will, it is possible to overcome these challenges. This paper also provides a host of strategies and policy recommendations for achieving the same. The findings of this research regarding the drivers and barriers in the supply of affordable rental housing could be also applied to other situations where there is a pressing need for such housing.

**Index Terms - Affordable, Rental Housing, Drivers, Barriers.**

## I. INTRODUCTION

With the turn of the new century, economic liberalization and industrialization have led to rapid development and expansion of urban areas in most of the developing countries. This in turn has resulted in a massive population influx into the cities of these countries from rural hinterlands. Consequently, the shortage of urban affordable housing has emerged as one of the greatest challenges in many developing countries such as Nigeria, Ghana, and India.

In India, many researchers have identified that provision of affordable housing in the primate cities has become one of the major stumbling blocks in attaining overall sustainable urban development (Ram & Needham, 2016). No wonder that a plethora of government and private initiatives are already underway to address this crucial need of the country. However, the housing value chain of India is quite complex and multifaceted (Nanyam et al., 2015). Moreover, the population of the Indian urban poor is non-homogenous (Ram & Needham, 2016) in terms of household size, composition, socio-cultural background, and housing needs. Many times, people migrate to the cities for a better job, education, and healthcare, but do not intend to settle down in the cities permanently. Thus, with the benefits available under various government schemes, they choose to build houses in their villages which they consider their permanent residence. Perhaps, one of the key reasons behind this is also that the subaltern urban population often needs to migrate from one city to another for better job opportunities, so settling down in any one city is not a viable option for them. This migrating city population, in the absence of adequate stock of affordable rental housing, take resort to slums and shanty houses with sub-human living conditions.

Sometimes, even if a household wants to own a house in the city, accessing housing finance becomes difficult without proper documentation or if they are employed in the informal sector of the economy (Mukherjee et al., 2016). Thus, they are left with no choice but to settle down in the urban slums compromising with health, hygiene, and other aspects of the desired lifestyle quality.

But even for those who get to own a house in the city by availing benefits of various urban affordable housing schemes, it is likely that their housing needs will change over time as their household passes through various life-cycle stages. Sometimes the change in housing needs can also result from lifestyle changes over time or changes in size or composition of the household. Without the means for moving into a new house that suits their upgraded housing needs, often the households are forced to compromise with the present housing situation. This often leads to problems such as overcrowding, congestion, unauthorized user-initiated housing transformation, or encroachment of the public spaces. To a large extent, this problem also could be addressed by the provision of adequate stock of affordable rental housing in the cities. Firstly, rental housings are often more affordable (Md. Sani @ Abd. Rahim, 2015). Besides, it offers more flexibility to the end-users by removing their liability of

owning and maintaining the property. Therefore, many countries like the USA, Sweden, China, and Germany have approached to uplift the housing condition of urban poor by first facilitating them with rental assistance and then shifting them to owned housing (Chattopadhyay, 1990).

## II. RESEARCH OBJECTIVES

The overarching objective of this paper is to provide critical analysis of the present situation of affordable rental housing in the primate cities of India. The accomplishment of this broad objective entails in two following phases:

- To identify the major challenges in the provision of affordable rental housing in India.
- To investigate whether any of these challenges could be overcome by appropriate policy and strategic measures.

## III. LITERATURE REVIEW

In India, while a plethora of government schemes and policies have been undertaken to promote the provision of fast-track low-cost housing, and various subsidies are announced by central as well as state governments to ease the burden of home-owning cost for the urban poor, very little is done regarding rental affordable housing. According to the census reports, the share of rental housing in urban India dropped from 54% in 1961 to 31% in 2011 (Tandel et al., 2016). Despite the government being the single largest provider of affordable housing in India, the present housing scheme of the government- “Pradhan Mantri Awas Yojna- (Urban)” of ‘PMAY-(U)’ does not have any provision for rental housing. Historically in India, the government's focus on affordable rental housing has been significantly low (Raj & Kumar, 2018). In the past five years plans of the country, the only emphasis on rental housing “was through the provision of subsidized rental housing for its or the state government's low-income employees” (Harish, 2016). Similar findings have also been reported by Tiwari and Rao (2016). Drawing comparison to developed countries across the world, the authors further suggest that government can transit the EWS (Economically Weaker Section) and LIG (Low Income Group) households from poor living conditions of illegal slums to quality rental housing rather than forcing ownership to everyone (Tiwari & Rao, 2016). Drawing attention to the huge number of NPAs by LIG/ EWS households and reselling of the housing units after booking, many researchers have criticized the present approach of government to solve the urban housing problem of the country (Raj & Kumar, 2018), (Debnath et al., 2019). According to the researchers, this could either mean that the government-subsidized houses are still unaffordable for a large section of the urban poor, or many LIG/ EWS households are simply not interested in owning houses. In both cases, this segment of the urban poor can constitute a good market for subsidized rental housing (Tiwari & Rao, 2016).

However, according to some researchers, public rental housing usually requires huge funding as the entire risk of development as well as maintenance lies with development authorities. Furthermore, “low investment return with high demand risks makes public rental housing projects un-bankable”. Hence, enhancing private participation in the provision of rental affordable housing is crucial. But in most of the major cities of India, rent control acts have paradoxically degraded the situation regarding the availability of affordable rental market-houses (Nallathiga, Ramakrishna, 2016). In fact, in the affordable housing continuum of a city like Mumbai where housing affordability is an ‘acute problem’, the share of formal rental housing is only 5% where that of informal rental housing is as high as 25% (Nallathiga, Ramakrishna, 2016). Similar findings have been reported by other researchers such as, (Tandel et al., 2016), who also points out that the rent-controlled units are generally ‘kept outside rental housing market’. Furthermore, the rent-controlled housing units go through downwards filtration because ‘low returns make it unaffordable for the owner to maintain the property’ (Tandel et al., 2016). The consequent distress and discomfort faced by tenants living in such rent-controlled units have been highlighted by many researchers such as (Debnath et al., 2019).

(Liu et al., 2014) one way to enhance more private participation in affordable rental housing is a carefully designed Public-Private Partnership (PPP) model which provides a platform for equitable risk-sharing between the private and public partners. According to the author, this would bring in the efficiency and innovation of the private sector in public rental housing development and bridge the existing funding gap. Citing the example of the UK, Ireland, Switzerland, the Netherlands, and the United States, (Lawson et al., 2014) has suggested that the creation of a financial intermediary with an overarching guarantee agreement can encourage more private developers to invest in public affordable housing. But according to (Liu et al., 2014), while the government subsidy system should be high enough to encourage private sectors to involve, but at the same time it ‘should not be so high to exhaust public revenue’.

In India, the government has designed a total of 8 different models of PPP for affordable housing. The 6th model of affordable housing PPP is called “Direct Relationship Rental Housing (DRRH)” and it is the only model which pertains to affordable rental housing. This is a government land-based model where the primary risk borne by the government is the land risk. The risks of development, financing, and maintenance are borne by the private partner. The risk of project off-take and development of trunk infrastructure is shared between the public authority and private partner, while the risk of cost recovery is shared between target beneficiaries and the private partner.

However, the on-ground adoption of the DRRH model has remained relatively low, probably because still most of the risks (and especially the financing risk) are attributed to the private partners. Besides in the absence of any PPP model for private land-based rental housing, the potential of using the huge inventory of vacant/ unsold market-houses for subsidized formal-rental housing remains unrealized.

## IV. RESEARCH METHODOLOGY

A qualitative research methodology has been adopted in this paper. An in-depth literature review along with extensive secondary data mining has been conducted to understand the present situation of rental affordable housing in India. Besides a series of semi-structured interviews have been conducted to gather the perspectives of eminent industry experts representing the various stakeholder groups associated with the rental housing supply chain, such as the policy experts, private housing developers, and public housing development authorities. Content analysis of the interview transcripts has been then performed to understand the common themes regarding the major drivers and barriers of rental affordable housing in India. Finally, the findings obtained from the interviews are corroborated with the findings of the literature review to provide policy recommendations that could help augment the provision of affordable rental housing in India.

## V. RESULTS AND DISCUSSION

The ensuing section provides a discussion on the major challenges in developing a sizeable inventory of affordable rental housing in the country as well as the plausible measures to overcome the same, as found during this research.

### 5.1 POLITICAL WILL AND SUPPORT

The presence of a strong political will and support is identified as a critical success factor for affordable housing development by many researchers across the globe. In India, 1 out of 6 people lives in the slums (Deloitte Consulting, 2019). As per another report by JLL, 41.1 crores of the registered migrant workforce live in rental accommodation (Housing, 2019). And fulfilling the housing requirement of this huge portion of the urban population could be easily integrated with the long-term political agenda and manifesto of any political party. This would provide the much-needed 'push' to the provision of public rental housing in the country.

### 5.2 CHANGE IN THE ROLE OF GOVERNMENT

Many interviewees have opined that at present Government has taken a rather passive role in the provision of rental houses to the urban poor. In fact, from the literature review, it could be found that all the government policies and schemes that were undertaken from the 10th five-year plan onwards, have gradually shifted the role of government from a direct housing provider and market enabler to that of a facilitator.

The concept of affordable public rental housing is still at a nascent stage in India. And most of the private developers refrain from investing in affordable rental housing as it requires a huge capital investment and provides a low return on investment with a relatively lengthier pay-back period. In such a situation, it is axiomatic to say that government should assume a more active role in providing public rental housing if it wishes to improve the overall situation of rental housing affordability in the primate cities of the country.

### 5.3 USE OF APPROPRIATE PPP FRAMEWORKS

Although there have been some attempts by the government to develop frameworks for endorsing private-public participation for the development of affordable rental housing, on-ground adoption of such models has remained significantly low. The primary reasons behind this include the unequitable distribution of risks, lack of incentives for the private developers, and excessive bureaucracy or corruption in the public departments. According to some experts, private participation through PPP in affordable rental housing development will increase if the government adopts the DBOT (Design Build Operate and Transfer) model of PPP following the footsteps of the infrastructure sector.

In the present PPP model of affordable rental housing, the government provides land, while the entire risk of project development, funding, and financing lies with the private developer. The model can be made like that of an expressway or an airport, where the developer designs, builds, operates, and transfers the asset to the government in 5 to 15 years. And government provides a yearly concession to the developer for fulfilling its duties. Some experts further suggested that the yearly concessions could be provided in two parts: firstly for compensating for the construction cost, which will be provided during the construction and development phase of the housing stock; and secondly for subsidizing the rentals, which could be provided throughout the entire operating phase of the project. There has been a unanimous agreement among the experts interviewed during this research, that, unlike the present model, the DBOT model would enable the government to have an equitable share in the land, project finance, and cost recovery.

Besides the aforementioned points, researchers also opine that another major hindrance in making PPP successful for affordable rental housing is the unavailability of real-time data that could be used for calculation of a justified concession amount and the pay-back period up to which the private developer must operate the facility for attaining break-even point. This can only be accomplished if the government is willing to launch pilot PPP projects of affordable rental housing.

### 5.4 DEVELOPMENT OF A FINANCIAL FRAMEWORK FOR USING THE UNSOLD INVENTORY

Besides, a lot of unsold housing inventory is present in most of the cities in the country which could become a potential source of affordable rental housing to the masses. However, since yearly yield will be low, some subsidies are needed to be provided by the government either to the banks in the repo rates or to the housing developers directly. This would make it financially feasible for the private developers to use this unsold housing inventory for rental housing schemes.

### 5.5 PROVISION OF DEVELOPMENT INCENTIVES AND CASHFLOW SUPPORTS TO THE DEVELOPERS

But despite all the initiatives of the government, one needs to understand that for most private companies, financial return is the single most important criterion for taking up new projects. It is needless to say that affordable housing projects have relatively less return on investment. Besides, for private developers, it is quite difficult to obtain financing assistance from the banks for such high-risk projects with long payback periods. To overcome this problem the government should work in close collaboration with the private developers and financial institutions to develop an ecosystem of affordable rental housing.

To further reducing the project financing cost to the private housing developers, the government could create an intermediary agency to aggregate and assess borrowing demands of the sector and issue long-term bonds to private developers. If the bonds issued by the agency are backed by a government guarantee it would provide a fail-safe option to the private developers. Such guarantee schemes involving a specialist financial intermediary that targets investment towards specific housing segments have been established in many countries across the world (Lawson et al., 2014).

### 5.6 MANDATE ON PARTICIPATION OF THE CONGLOMERATES THROUGH CSR ACTIVITIES.

Another effective way to augment the use of private funds in affordable rental housing is by making it a mandatory component of corporate social responsibility (CSR) of the conglomerates working in the country with an annual turnover beyond a pre-defined limit. The fund thus collected from such companies could be further re-directed towards the private sector for the facilitation of the development of affordable rental housing.



## VI. CONCLUSION

The provision of urban affordable housing and the development of a slum-free India has been on the manifesto of all the governments in India since independence. But the existing approach of pushing homeownership to the entire population with little regard to the actual housing needs of the urban poor has only multiplied the existing housing problems of the country. However, the findings of this research suggest that a careful balance between ownership and rental housing would potentially solve many of the prevailing housing problems of the country.

Although at present the country lacks a conducive ecosystem for the development of a sizable inventory of such affordable rental housing, with adequate policy interventions and political will it is possible to change this existing situation. During this research, it has been found that some of the crucial steps for achieving this are: provision of financing assistance to private developers through intermediary agencies and long-term bonds with government guarantee; use of unsold housing inventory for rental housing; private funding through mandatory CSR activities and a well-developed PPP framework with equitable risk-sharing among all the parties.

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