

HOUSING PROBLEM IN INDIA - TODAY AND 2000 A.D.

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"Free Enterprise was born with man
and shall survive as long as man
survives."

—A. D. Shroff
1899-1965
Founder-President
Forum of Free Enterprise

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By

DEEPAK S. PAREKH*

The low priority given to housing in the early years of India's independence is perhaps understandable, because clearly the first priority of national development was to provide food for the people. The major national effort was indeed devoted to food self-sufficiency, irrigation etc. Besides, a large portion of the initial investment went into the creation of an industrial infrastructure such as steel plants, oil refining facilities, communications and high grade manpower through IITs, technical schools etc. One might say, that to a large extent, this aspect of the national effort reached a plateau around the 1970s. Attention began to be given to housing, which, a chronic problem in rural areas, had now become a huge social and economic problem in the big cities as well. It is true to say that food production, if not distribution, has ceased to be an overriding problem and a substantial number of people are also reasonably clothed. The major basic national priorities today are clearly housing and education.

Importance of Housing: Besides meeting the basic human needs of shelter, housing also provides direct and indirect employment to several people. Its social and psychological importance to human beings is so well known that there is little

* The author is Managing Director of Housing Development Finance Corporation Ltd. (HDFC). The text is based on a talk delivered by him at a meeting arranged by the Forum of Free Enterprise in Bombay on 1st June 1988.

need to elaborate this aspect. It is also an economic activity. It has a multiplier effect on the economy by first eliciting savings and then generating demand for a range of items such as building materials, household equipment etc.

Construction activity has considerable employment potential and utilizes mainly unskilled labour thus generating jobs for the vulnerable sections of the society. According to the National Buildings Organisation (NBO), an investment of Rs. 1 crore in construction activity can generate jobs for 565 men in direct labour (i.e. on site) working for one year and for 904 men in indirect labour (i.e. in supporting activities such as the cement industry etc.) also working for one year. These figures are for construction of urban pucca houses and according to the 1983-84 wage rates.

The Housing Problem – quantitative and qualitative aspects: The housing problem from the macro angle, to state in simple terms, is the large shortage of housing in the country. Shortage of housing is defined as the difference between the total number of households and the existing stock of housing units in the country. The housing shortage in India has been growing at an alarming rate. The estimates of housing shortage projected to 2001 A.D. are given in the following table :

TABLE 1:
Estimates of Housing Shortage

Year	(No. in millions)		
	Rural	Urban	Total
1951	6.5	2.5	9.0
1961	11.6	3.6	15.2
1971	11.6	2.9	14.5
1981	16.1	5.0	21.1
1985	18.8	5.9	24.7
1990	22.3	6.9	29.2
2001	29.8	9.3	39.1

Source: Handbook of housing statistics (NBO), Planning Commission, Ministry of Urban Development.

In fact, estimates by other agencies put the shortage at a much larger figure.

- As the above table indicates, the housing shortage has grown faster in rural areas compared to urban areas mainly due to the larger population growth and lower incomes in the rural areas.
- It is to be remembered however, that unserviceable kutcha* houses which form about 11 per cent of the total housing stock have been ignored in the count of houses. In 1981, it was estimated that there were 12.9 million unserviceable units. The houseless population estimated in 1981 was 2.3 million, forming 0.34 per cent of the population. This population comprises of those residing on roadsides, pavements, in pipes, temples etc. or in the open. The housing problem will not be solved merely by constructing more houses. The solution lies in providing *affordable* houses which are within the purchasing power of the mass of the people.

Besides the quantitative shortage, the poor condition of a large part of the existing stock and the overcrowding in houses and tenements are also important aspects of the problem. About 40 per cent of the population lives in one room houses. The number of persons per dwelling as per the 1981 census has been estimated at 6.00 whereas the average size of a family has been estimated at 5.6 persons. Sometimes two or more families live together in one dwelling due to lack of alternative housing.

As per the data available for 1971, only a little more than one fourth of the total number of households in India live in pucca housing units. One third of the population live in semi-pucca dwellings and more than one third in kutcha dwellings. In rural areas 80 per cent of the housing stock is kutcha and a significant number of the kutcha houses consist of unserviceable ones. About 30 million people amounting to nearly one fifth of the urban population live in slums which are characterised by squalid housing and unhygienic environment. The proportion of slum population is even higher, at about 30 per cent in the metropolitan cities.

* unserviceable kutcha houses are those with thatched walls and thatched roof and need quick replacement whereas serviceable kutcha houses have mud walls and thatched roof.

While dealing with the issue of housing, one also has to consider the provision of associated amenities such as water, sanitation facilities, electricity etc. In this aspect of housing amenities and facilities, the picture is quite dismal. Only about 31 per cent of the rural population and 78 per cent of urban population have access to water supply. With regard to sanitation, only 0.5 per cent of the rural and 27 per cent of the urban population have this facility.

Factors behind the housing problem: There is no single factor which can be identified as the root cause of the worsening housing situation. Multiple factors have contributed to the complexities of today's housing predicament. Some of these may be identified as follows:

(a) **Population explosion:** According to the 1981 census the population of India was 685 million. By 2000 A.D. the population is expected to cross the 1000 million mark. The average growth rate of our population is about 2.5 per cent though it is expected to reduce to about 2 per cent in the future. About 70 to 75 per cent of the housing shortage is estimated to be due to population growth and only 25 to 30 per cent due to replacement required of old housing units. In 1984-85, 37 per cent of the population was below the poverty line. These people have low income, low savings and low capacity to lay hands on resources to meet shelter needs. Population control i.e. a dramatic slowing down of the growth rate of the population, will have a great contributory role to play in attempts to wrestle with the housing problem. A drop in the population growth rate will not only help in reducing housing shortage but will also have an impact on other infrastructure such as transport, sewage, electricity and water supply.

(b) **Rapid urbanization:** Seventy seven per cent of the Indian population resides in villages and twenty three per cent in urban areas. However, this position is undergoing a change with rapid urbanization due to the migration of the rural population to urban centres, that offer greater earning opportunities as well

as other amenities such as medical facilities, education etc. which are not fully developed in the rural areas. India's urban population is 160 million – the fourth largest in the world. As against the general population growth rate of 2 to 2.5 per cent, the urban growth rate is about 4 per cent mainly due to the influx of rural population. To arrest this one way traffic, the government has to think in terms of developing job opportunities in the rural areas. What is more disquieting is that the percentage of urban population living in class I towns, including metro cities, to the total urban population has increased from 56.2 per cent in 1971 to 60.4 per cent in 1981.

Urbanization coupled with low incomes and lack of alternative housing has resulted in an increase in overcrowding and consequent growth of slums thereby putting a heavy strain on the infrastructure and services. Facilities like provision of potable water and sanitation are either non-existent or insufficient in such localities. An interesting fact that emerged from recent surveys is that the slum population consists not only of the unskilled poor but also of a number of white collar employees and there are many families earning four figure monthly incomes residing in slums. De-urbanization needs a multi-pronged approach. Creation of job opportunities in the semi-urban and rural areas, provision of infrastructural facilities in these areas such as schools, hospitals, colleges and encouraging state-owned Boards to develop plots and housing at affordable rates in these places. These measures would contribute substantially to the process of defusing the pressure in the urban areas.

(c) **Low priority** : Hitherto, it was felt in India that housing called for a large input and yielded little output. As a result, the investment in housing progressively fell from 34 per cent of the total investment in the economy in the First Five Year Plan to about 10 per cent in the Seventh Five Year Plan. Public investment in housing also dropped from 16 per cent in the First Plan to 1.6 per cent in the Seventh Plan. However, the Government has realised the gravity of the problem and is taking several steps to alleviate it. It ought to be remembered,

however, that developing countries will continue to accord low priority to housing due to the financial constraint they face. In India too, though the situation may improve somewhat after the National Housing Policy is implemented and the formation of the National Housing Bank, yet, due to the restricted resources of the Government, its hands will be tied. It can only develop a system more sensitive to the housing needs of the people than the one that currently exists. Public spending on housing may not increase too much.

(d) Laws & Regulations: Some of the laws and regulations might have had an effect on the growth of housing. The Seventh Five Year Plan and the National Housing Policy have clearly recognized the disservice done to housing by the various laws which were originally enacted to aid housing. Currently, a lot of thought is being given to the changes necessary in laws that impede growth in housing. The main regulations which have hindered housing are as follows:

(i) *The Urban Land (Ceiling and Regulation) Act 1976:* This Act provides for a ceiling on ownership of vacant urban land and the acquisition of such land in excess of the ceiling by the Government. It was enacted to promote equitable distribution of urban land to serve the common good. This Act was supposed to ease the supply of land specially to the weaker sections. The Act failed in the achievement of its objective and, in fact, pushed up land prices tremendously by creating an artificial scarcity of land. It is understood that the Government is contemplating necessary steps to relax the Urban Land Ceiling legislation prevailing in the different states.

(ii) *Rent Control Act:* The Rent Control Act is a state legislation and hence is not uniform in the various parts of the country. It was designed to protect the tenants against unduly high rents and frequent evictions. This Act has lent itself to large scale misuse by tenants and made it virtually impossible for house owners to resecure possession of their property under any circumstances. In actual fact, it protects not only the poor

tenants but also the rich tenants including the corporate tenants who can easily afford higher rents.

Because of this Act, a large number of house owners demand a "pugree" (i.e. a large deposit) before they give the house on rent. The "pugree" is meant to partially protect the house owner in case he loses possession of the house and is also the price to be paid for an asset which is in short supply. In fact, sometimes when a change of tenancy takes place, the old tenant and the house owner share the "pugree" given by the new tenant. Because of the above Act, owners sometimes prefer to keep their flats vacant thus reducing the supply of rental properties in the market and pushing up the rent of the available properties. According to the 1981 census report, 5.33 per cent (or 8.05 million) of the houses were lying vacant at the time. Also due to the Rent Control Act, there is no incentive for the owners of old houses to maintain these houses and hence they fall into disrepair and the housing stock gets depleted.

(iii) *Municipal regulations*: The Seventh Five Year Plan, as stated, has as one of its objectives:

"Securing reduction in construction costs not only by adopting low cost housing techniques and standards but also adopting modifications in building bye-laws, minimum plot requirements, land use control etc."

Due to the highly restrictive building bye-laws and density norms, the minimum cost of a dwelling that conforms to these norms is such that it is out of reach of a large proportion of the poor people. These norms prohibit self help construction by low income households. In fact, in the recently formulated National Housing Policy, one of the suggested strategies is lowering of norms.

The recent withdrawal of the Stamp Duty exemption given earlier to urban residential units (by the Maharashtra

Government) has aggravated the housing problem instead of alleviating it. This will have far reaching effects on the co-operative housing movement. The State Government has indicated that there is some rethinking on this issue. 0

(e) Cost of housing: The price of residential units today is such that they are out of reach of a majority of the population. Lack of availability of developed land at reasonable prices is a major cause of the housing shortage and of the prohibitive price of housing today.

It is estimated that 80 per cent of the total value of a house is towards land. Land prices have sky-rocketed, particularly after the Urban Land (Ceiling and Regulation) Act. Moreover, land prices are generally downwardly rigid, hence even after corrective action is taken there is little hope of land prices coming down. In certain localities, especially in those of the metropolitan cities, the land prices may rise by as much as 100 per cent to 300 per cent per year due to the tremendous demand for such premium locations.

The building costs have also been rising steadily. As calculated from the NBO data, building costs have been rising at approximately 10 to 15 per cent per annum. Good quality construction requires the use of bricks, cement, steel etc. These materials are not only in short supply but also exorbitantly priced. Engineers are talking about new trends in construction technology with a view to striking a balance between indigenous and modern building techniques.

Housing Finance: The major problem in housing from the point of view of the individual is the larger outlay that acquisition of a home entails, as opposed to food, clothing or education. Most lower middle class and poor families are therefore forced to live in rented houses which further inhibits the construction of new houses. It is, therefore, imperative to create and strengthen institutions which accelerate the pace of building

activity by providing funds to individuals. Housing finance has proved crucial, even in the Western world. In India, it is indispensable. The financial markets in housing are comparatively well developed in advanced countries but they are in their infancy in third world countries including India. The existing housing finance system has two broad segments - formal and informal.

The informal sources include households, public and private sector employers providing housing loans to their employees. In 1982-83, the formal institutional funding of housing was Rs. 1,071.18 crores and the informal funding was Rs. 3108.05 crores. Hence about 75 per cent of the investment in housing was from informal sources. Thus the investment of the public sector as well as of the organized sector in housing has been rather small. The major part of funding for housing is being provided by the private households for themselves.

The formal sources comprise:

- (i) budgetary allocations by the Central and State Governments.
- (ii) general financial institutions such as LIC, GIC, commercial banks, and provident funds.
- (iii) specialised housing finance institutions viz. HUDCO, apex and primary co-operative finance institutions, HDFC and a few housing finance companies set up recently in the private sector.

At present, there is no proper institutional framework to encourage savings for the purpose of investment in housing nor is the existing system responsive to the characteristics and needs of the housing market. Several expert groups who have examined the housing problem in depth have recommended the creation of a well-defined housing finance system through the establishment of appropriate institutions at various levels which will mobilise resources for housing and promote housing activity.

In fact, if we look at the developed countries like U.K. and U.S.A., they have used various methods of financing and have a well developed housing finance system to cater to the needs of the various strata of society and to help overcome the problem of under-investment in housing.

Although housing is a state subject, the Central Government has a strong influence on public housing programmes. This is due to the fact that because of the paucity of funds with the State Governments, they depend for funds on institutions like LIC, GIC, HUDCO which are owned by the Central Government.

The formation of the National Housing Bank is a step in the right direction. Its scope of activities, as envisaged, will give a tremendous boost to the solution of one major housing problem – the availability of finance.

Until recently, India did not have a housing policy. This lacuna on the part of the policy makers was pointed out in the Seventh Five Year Plan which states that "this (housing) problem cannot be tackled in a meaningful way if housing activities are left to follow the past pattern of slow and unsystematic growth"

The Seventh Plan also concedes that the major responsibility for house construction would have to be left to the private sector. The Government can help by establishing a proper system of institutions for mobilising housing finance and developing suitable housing sites on a large scale. The poorer sections of society, however, would perhaps require subsidies and assistance in house construction from the public sector.

The Seventh Plan has pointed out that the most crucial need for housing development, at present, is the establishment of a diversified institutional structure for housing finance and construction. Institutions like HUDCO should concentrate on the institutions like HDFC should be set up to cater to the clientele coming largely from the middle class. The vast majority of house seeking individuals should be looked after through the creation

of local level housing finance societies. These societies would raise deposits from the public, mainly from the would-be house owners and thus stimulate private saving. Schemes like sites-and-services for the landless poor, under which sites with the required infrastructure were allotted, are to be continued. There is also a need for environmental improvement of urban slum programmes under which facilities like potable water, sanitation etc. are to be provided to slum dwellers. It is to be noted that the focus has changed from clearing slums (as in the First Five Year Plan) to improvement of slums and provision of facilities. The Government has realized that the slums, though squalid, do provide shelter and destroying slums is tantamount to the destruction of some housing investment.

Early 1970s saw the gradual emergence of a public sector interest in urban and housing problems. The Housing and Urban Development Corporation Limited (HUDCO) was established by the Government to co-ordinate a greater public sector involvement in the housing problems of the urban poor. Like a development bank for the housing sector, it supports both technical and financial inputs into housing programme of each state via locally constituted housing boards. Its assistance is largely meant for the weaker sections of society. It uses differential interest rates to orient its financial programmes towards the low income groups and encourages projects that meet the basic need of shelter by providing inexpensive and functionally efficient shelter for rural families.

The Life Insurance Corporation (LIC) and the General Insurance Corporation (GIC) are important sources of long term housing finance in India. They provide finance for some social housing schemes in the public sector and to eligible housing co-operatives and LIC is the largest investor that has emerged in housing by Government directed efforts. Its contributions are primarily to water supply, housing and urban projects and also through loans for home purchase for its policy holders. LIC also proposes to enter into the field of housing finance for individuals.

Co-operative societies: Co-operatives are an effective and powerful medium for promoting affordable housing.

Co-operative societies provide full involvement of the members and the construction cost is minimised due to their participation. The merit of the co-operative movement lies in its potential for raising private finance for housing activity. There is mainly a two-tier structure in the co-operative housing sector. At the grassroot level, there are the primary co-operative housing societies which actually undertake construction and provide housing and at the state level, there are the apex housing finance societies which provide funds to the primary societies in their respective jurisdiction.

The major sources of finance for the apex level institutions are LIC, GIC, HUDCO, commercial banks, loans from Government, issue of debentures and shares etc. The co-operative housing movement consists of 39,000 housing co-operatives all over the country with a membership of 26 lakh individuals. This movement has to its credit 6 lakh houses/flats already constructed and an equal number under construction. There are 23 apex co-operative housing finance societies in various states and union territories.

The recently announced National Housing Policy has promised to encourage co-operative and group housing activities as one of the strategies to be adopted in overcoming housing shortage.

State Housing Boards: State housing boards construct independent houses, flats and also promote sites and services schemes. They have different housing schemes for the various income groups from the economically weaker sections (EWS) to the high income groups (HIG). They provide housing loans to individuals which are a portion of the cost of the housing and which are to be paid back in monthly instalments within 8 to 13 years.

Housing Development Finance Corporation Limited (HDFC): Housing finance, as a formal specialised and institutional activity, was introduced into India by the establishment of the Housing Development Finance Corporation Limited (HDFC). Its primary objective was to promote home

ownership by providing individual families with long term mortgage loans priced at commercially viable rates in all major urban areas. Due to its path breaking success, other housing finance agencies are venturing in the private sector and various state governments are also thinking of establishing institutions in their States on the model of HDFC. Housing Promotion Finance Corporation Pvt. Ltd. (HPFC) has been established to serve the Eastern region and CanFin Homes Ltd. for the Southern region.

The growth of housing finance organisations in the country has, in a small way, helped people staying in urban areas to borrow money in a systematic and organised fashion rather than resort to borrowings from local money lenders who have, over the years, exploited people by charging exorbitant interest rates (6 per cent – 8 per cent above formal market rates).

HDFC, has, as part of its commitment to involve itself in the overall financial development, financed amongst other projects, a pilot rural housing project in the Valod district in Gujarat. Also, it has, of its own initiative, promoted a new company – Gujarat Rural Housing Finance Corporation Ltd. – to provide housing assistance to the rural inhabitants of Gujarat. The Government of Gujarat has contributed to this venture by providing a soft unsecured long term loan. LIC, GIC and co-operative housing finance societies have been contributing to rural housing finance to a limited extent.

During the reading of the National Housing Bank Bill in the Parliament, almost all members in both houses stressed the need for the new Apex institution to concentrate on financing rural housing. The National Housing Bank has increased its equity capital to Rs. 225 crores this year against the earlier limit of Rs. 100 crores. Out of this Rs. 225 crores, 50 per cent is to be spent for rural housing. It has also announced that the ceiling of Rs. 225 crores is to be further raised to Rs. 300 crores in 1989.

National Housing Policy (NHP): A National Housing Policy recently announced by the Government aims at removing legal,

administrative and institutional constraints to housing; supporting individual and group initiatives in house building; developing low cost building materials and designs; promoting growth of building centres as well as making available standardised and good quality building materials and laying down a policy to ensure a reasonable return to house owners protecting, at the same time, weaker tenants from arbitrary increase in rent and eviction. A practical suggestion in the NHP is the lowering of norms to reduce the cost of construction. The minimum plot size advocated for rural housing is 85 sq.m and for urban housing 25-30 sq.m.

The role of the Government has been identified as more of a facilitator and promoter than of an active participant in housing. The only sphere in which direct participation of the Government is suggested is in the provision of amenities like drinking water, sanitation etc. and in providing subsidised housing to the weaker sections. The policy also recognizes the importance of rental housing and suggested steps such as the amendment of the Rent Control Act to encourage investment in rental housing. However, nothing is mentioned about the Urban Land (Ceiling and Regulation) Act.

This is the appropriate time to take measures to enhance the viability of housing finance institutions. To ensure in case of default, proper and speedy procedures for recovery of funds lent by such institutions, certain legislative steps are called for. In fact, in early 1987 the Ministry of Finance did constitute a Committee for the purpose of finalising the draft legislation regarding the proposed scheme for mortgage insurance of housing loans in India. Some of the main areas covered by this legislation are the introduction of the concept of an "approved housing lender", provision for maintenance of reserves by an insurer, provisions for recovery of claims arising from refinance of housing loans etc. The National Housing Bank should therefore give high priority to the development of a mortgage insurance system and secondary market.

The coming decade: What will the housing situation be like in the next decade? What are the various factors which will

affect housing in the coming years? Housing shortage is likely to continue for quite some time since it will be difficult for housing construction to keep pace with the explosive growth of our population. The housing shortage forecasted for 2001 A.D. is 39.1 million numbers of which rural areas will account for 29.8 million and urban areas 9.5 million.

Trends like urbanisation and population growth will worsen the situation in the cities. It has been estimated in the Seventh Plan that the percentage of urban population to total population of India will rise to 32 per cent in 2000 A.D. In developed countries urban population accounts for 70 per cent of the population. With increased industrialisation, India will also head the same way. The Government should keep this in mind and should see that industrialisation spreads to other areas. Otherwise the existing urban centres will face unbearable pressure. It should also plan for the future housing need of urban centres by setting up satellite townships around them and building fast mass transport systems.

• High rise buildings will become more and more popular as land becomes more scarce. Land prices will become prohibitive due to excessive demand. As a result, the purchase price of a house will continue its upward spiral. As a corollary, houses will also become smaller as prices rise. Urban limits will expand and people will travel long distances to come to work in urban centres. The resources constraint on the Government will continue due to which it may be unable to allocate much public funds to housing. However, the institutional framework for mobilising housing resources will improve and an individual may be in the happy state to be able to make a choice from amongst various housing schemes available to him.

To open new avenues for channelising institutional funds into housing sector housing could be recognised as an industry and any fiscal relief that would encourage savings which are channelised into the housing sector either directly or through investment deposits/debentures should be provided by the Government.

Legislative changes and development of indigenous low-cost construction material will play major roles in the housing scenario in the next decade. To avoid urban decay and encourage de-urbanization, the Government will have to place greater emphasis on infrastructural facilities such as transport and roads, water sewages and commercial and general development of new areas. Employment opportunities in newer areas will have to be created to reverse the exodus into urban pressure-spots. The challenges are multi-dimensional – the solutions more so! Yet the problem needs to be addressed today to make tomorrow a better place to live.

*The views expressed in this booklet
are not necessarily the views of the Forum
of Free Enterprise.*

“People must come to accept private enterprise not as a necessary evil, but as an affirmative good.”

—**Eugene Black**

FORUM OF FREE ENTERPRISE

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