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Low cost, big dreams

Rajiv Bhuvra and Manu Kaushik July 6, 2010

It's a Sunday afternoon and it's raining heavily in Mumbai. That has not deterred Dilip Gaikwad, 46, from taking a 55-minute train journey to Ambivali, nearly 60 km north-east from the city. Gaikwad, a factory supervisor for 12 years with a private outfit in Mumbai, is chasing a dream. He is house-hunting.

And that's what has brought him to Ambivali, to the sales office of Neptune Swarajya, a low-cost housing project launched in March 2009. Where Gaikwad currently puts up is a 250-sq. ft. room in Bhandup, which he shares with his brother's family - all of 10 people living under one tiny roof.

Is he comfortable with doubling his commute time to work every day? "Circumstances push us out," says Gaikwad, who knows the periphery of Mumbai is the closest he can afford a home in the port city. At Neptune Group's office, Gaikwad gets to know that banks will finance his home purchase if he draws a monthly salary of at least Rs 15,000. His salary is Rs 12,000 but a family property in Aurangabad can be sold to fund a large part of his dream home.

Across the country, millions of people living in urban India who fall into the low income bracket - Rs 8,000 to Rs 15,000 a month - are looking to buy a house. They have been hamstrung so far mainly by two factors. One, the houses coming up in the market are not affordable - even the so-called affordable housing starts at Rs 15 lakh in big Indian cities.

Two, banks and housing financial institutions are wary about lending to "informal sector" constituents, typically petty traders, car drivers, autorickshaw or cab operators, hotel

The Thrifty Homes Sprawl

AHMEDABAD, GUJARAT

Om Shanti Nagar - 2, Santosh Associates

Navjivan Housing, Foliage

Gokul Galaxy, Galaxy Developers

New Maninagar Apartments, Dharmadev Builders

Umang Lambha, DBS Affordable Home Strategy

Karnavati Apartment, Shree Ram Developers

MUMBAI, MAHARASHTRA

Swarajya, Neptune Group

Samruddhi Complex, Poddar Housing

TMC, Matheran Realty

Pink City and Star City, Rashmi Housing

Shubh Griha, Tata Housing

Karjat Land Developers

Sathya Nagar, Conglome Techo Construction

support staff and the like. These are people who do not have full-time jobs or regular incomes, or just do not have the supporting documents like bank accounts.

But that has been slowly changing over the past three years. A clutch of new builders across the country has come up with low cost projects with houses costing between Rs 3 lakh and Rs 7 lakh that suddenly make it possible for people like Gaikwad to buy a home. National Housing Bank, or NHB, India's housing finance regulator, estimates there are 25 developers over seven states offering quality homes in this price range (in one case, it is as low as Rs 2.81 lakh). (See Microfinance in, Big Lenders Next.)

From Bhiwadi to Bangalore, Mumbai to Meerut, a whole new breed of developers is getting into the space to cash in on the opportunity (see The Thrifty Homes Sprawl.) Take the case of Spice Homes, a new entrant in the low cost housing arena. The Delhi-based company plans to launch two new projects in the next five-to-six months. In August, the realtor has plans to build independent houses and apartments on the outskirts of Meerut, 65 km north-east of Delhi, where it has bought 25 acres.

By the end of year, it will begin construction on 30 acres in Jaipur. Spice Homes will be spending close to Rs 110 crore in these two projects inclusive of land costs, which is around 40 per cent of its total investment. "Low cost housing is the next biggest thing after the telecom sector," says Ashish Singh, Director, Spice Homes, and brother of Ajay Singh, who in June sold his promoter stake in low cost airline SpiceJet to Chennai-based media billionaire Kalanithi Maran.

Urbanisation will only increase and the company wants to tap this opportunity at the right time, Singh adds. Spice Homes aims to price the independent houses (50 sq. yards duplex units) at Rs 9 lakh while the apartments (350-500 sq. ft.) will be priced between Rs 4 lakh and Rs 6.5 lakh. Spice Homes will also be selling independent plots at a price of Rs 3 lakh. The three-phase Meerut project will be over by August 2013.

Lok Amber, Lok Group
Vaishnavi Sai Complex, Shubh Aangan Realty
Valram Vatika and Valram Ashish

PUNE, MAHARASHTRA

Anandgram, Vastushodh Projects
Shalini Lakeview, Trishul Builders

BHIWADI, RAJASTHAN

Avalon Homes, Avalon Group
Dev City, Arun Dev Builders

BAWAL, HARYANA

Ashray Homes, Surefin Builders

MEERUT, UP

Spice Homes

NAGPUR, MAHARASHTRA

Shridhar Empire AC,
Shridhar Buildcon

BANGALORE, KARNATAKA

Vaibhava, VBHC
Shubha, Janaadhar

CHENNAI, TAMIL NADU

Atulya, Annai Builders

Gurgaon-based realty firm SAS Group plans to launch 7.5-10 million sq. ft of what it calls microhousing projects across different cities by the end of the current fiscal year. The company has earmarked Rs 500 crore to build 25,000 micro-housing units across 15 cities in the next 24 months. "The work on these projects will begin in March next year and will be ready by June 2012," says Sunil Batta, President, Real Estate.

The projects will be in Bahadurgarh and Bhiwadi (satellite towns of Delhi) and on the outskirts of Mumbai, Gurgaon, Ghaziabad, Meerut, Ludhiana, Jalandhar, Jaipur, Surat and Pune, with easy connectivity by highways and local transport. SAS is aiming at blue-collar workers, skilled labourers, shopkeepers and others with Rs 8,000-15,000 monthly incomes as customers.

Low cost housing is teeming with interest. In south India, auto giant TVS Group is said to be looking at launching projects to address such housing demand. Tech entrepreneur and founder of software services firm Mphasis, Jaithirth (Jerry) Rao, has cofounded Value Budget Housing Corporation, which plans to build homes in the price range of Rs 4.5 lakh to Rs 10 lakh. Rao's first project of 1,904 apartments spread over 16 acres on the Chandapura-Anekal Road, 28 km south-east of Bangalore, is at the planning stage and awaiting approval.

Microfinance in, big lenders next

R.V. Verma, Executive Director/ National Housing Bank

The low cost housing market in urban India is growing rapidly and looks dramatically different from what it was three to four years ago. Since 2007, NHB has witnessed around 20 per cent compounded annual growth rate in the total amount of loans disbursed to this segment. Last year alone, out of around Rs 8,000 crore disbursed, more than 40 per cent was used to refinance individual loans up to Rs 5 lakh. But that's not enough. The country still faces a shortage of 24.7- million low cost homes.

There is a large population in the lower-income segments which doesn't have easy access to housing loans and also can't afford to buy a house out of their savings. Typically, these are individuals or households with a monthly income of Rs 5,000-10,000. On the construction side, there are today over 25 developers across seven states offering good-quality urban homes between Rs 3 lakh and Rs 7 lakh (and in one case, as low as Rs 2.81 lakh). The loan component for such houses range from Rs 2 lakh to Rs 5 lakh. The upper limit of a loan is derived by multiplying the household monthly income by 48.

As a development finance institution, NHB has to ensure that the momentum does not break down. There should be adequate institutional mechanism and products, which help the market reach this segment. With a view to connect the formal and informal sectors, NHB is also extending financial assistance to micro-finance institutions (MFIs) for providing assistance to their members belonging to the informal sector and requiring housing loan amounts ranging from Rs 50,000 to Rs 1.5 lakh.

Currently, 22 MFIs are being provided such support from NHB and we expect this market can be significantly upscaled. However, we have to move cautiously in this segment since higher loan amounts will be needed for longer periods of time as against their core model of micro loans for short time periods.

NHB is also encouraging housing finance companies (HFCs) to set up separate arms dedicated to the low cost housing market. Of late, there has been a growing interest among promoters of specialized HFCs in serving this market.

(As told to Manu Kaushik)

Other companies, such as Tata Housing, have plans on the drawing board as well. So, what has made these players, most with no background in the realty or construction business, tap a market that established players have avoided? "The idea of going into this segment was primarily driven by the humongous size of the market. It's a high-volume, low-margin business," says SAS's Batta. Consulting firm Monitor's calculations peg the market for Rs 3-10 lakh homes at a mind-boggling Rs 11 lakh crore with demand running into 21 million.

Monitor also believes that corporates can potentially create billion-dollar businesses in the next five to seven years. (See India's Next Mega Market, pg 54). "With ambitious corporate players getting interested, we will definitely see at least half a dozen billion-dollar companies in the next five to seven years," predicts Ashish Karamchandani, Partner, Monitor Group.

The entrants are not in for a cake walk, though. For one, margins are low, which perhaps explains why most of the established realty players are staying away. SAS expects to squeeze a margin of 15 per cent from micro-housing, compared with 25 per cent from its other projects. Spice Homes, too, anticipates low margins of 10-15 per cent but is counting on quick sales and turnaround to give it a return on investment of over 25 per cent. In comparison, realty biggies who build and sell apartments for Rs 40 lakh and upward have project margins upwards of 50 per cent - but sales cycles can drag on for years.

Two, to keep costs down, most low cost housing projects are located away from the city centre and that comes with its share of issues. Mumbai-based real estate major Marathon Group has its affordable housing project at Badlapur, 68 km north-east of Mumbai. "The construction cost does not vary across locations, but land prices may have a big difference," says Mayur Shah, Managing Director, Marathon Group. "Prices in the periphery could be lower by 10 times compared to city locations." And that's a reality not just in Mumbai. "It's impossible to get cheaper land within (Bangalore) city," says Pramod Kumar, Director of Operations at Value Budget Housing.

Then, there are the bureaucratic and infrastructure hassles. "In Haryana, Punjab and Rajasthan, the government doesn't allow realtors to build more than 600 units per acre of land. We need to build at least 1,000 units per acre in order to stay profitable," explains Batta. Marathon's Shah also points out to the lack of infrastructure in the peripheries. At Badlapur, for the 660 flats project, Shah had to get water pipelines laid from a 2.5 km distance. "There is no single window clearance and approval processes are long drawn and take months,"

says Nayan Shah, President Operations, Neptune Group But the biggest hurdle is financing.

Even if all these houses get built and customers line up to book them, they would still need to be financed. And this is probably where the best news is. There is an emerging crop of financiers willing to process the home loan application of individuals from the informal sector or those with low incomes - a big change from as recently as two years ago. Mumbai's Micro Housing Finance Corporation, for instance, finances home loans for vegetable vendors, cab drivers and petty traders.

The company has disbursed 200 loans so far, and has a yearend target of 1,500 disbursals. "The housing finance model in India is a great success. So is the microfinance industry. It's a matter of time before somebody gets the micro-housing financing model right," says Rajnish Dhall, Director at the finance company. Dhall and colleagues Madhusudhan Menon and Nachiket Shelgikar all have backgrounds with large banking corporations - American Express and Deutsche Bank.

Muthoot Fincorp, a financial services arm of Muthoot Pappachan Group from Kerala, is also looking at financing home loans for houses that cost between Rs 3 lakh and Rs 15 lakh. "We are in the process of getting NHB's approval and will start lending soon," says Thomas Muthoot, its Director, Strategic Initiatives. "Our plan is to disburse over Rs 500 crore in the first three years of operation."

He adds that he is looking for partners with expertise in the business. The SAS Group is also planning to launch a micro-mortgage firm and already has a licence from NHB. Value Based Housing Corp. is also looking to set up a housing finance company which would address the borrowing needs of eligible customers who fall below the bank's screening norms.

At Ambivali, meanwhile, some 2,850 flats have been pre-sold at the Neptune's Swarajya project - over 70 per cent of them financed by the likes of Dewan Housing Finance and surprise, surprise, Housing Development Finance Corp., the country's biggest house financier. The next big thing, cliched as it sounds, is starting to roll in the Indian business landscape.

- *Additional reporting by N. Madhavan*

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