



Areté Advisors
THE EXCELLENCE EDGE

THE HOUSING OPPORTUNITY AT THE BOTTOM OF THE PYRAMID

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AFFORDABLE HOUSING - THE BIG REAL ESTATE OPPORTUNITY IN INDIA

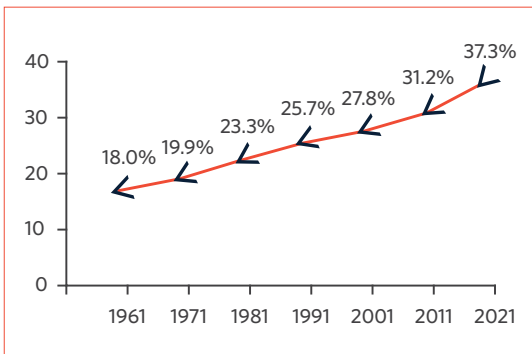


Figure 1: Rate of urbanization in India (%)

India's urban population has grown at a compounded growth rate of 2.8% p.a. from 286 mn in 2001 to 377 mn in 2011. Nonetheless, urbanization levels in the country remain much lower compared to other developing countries like China (51%), Indonesia (51%), Brazil (85%) and South Korea (83%). Continuing population growth, combined with an increase in urbanisation levels to ~37% will drive the total urban population to ~500 mn by 2021.

Housing this large urban population continues to be a significant challenge. GOI estimates peg the gross urban housing shortage (i.e., number of households with unacceptable quality of housing, or no housing) at about 19 million units¹ in 2012, meaning that 23% of urban Indian households do not live in acceptable houses. The majority of this housing shortage is concentrated in lower income strata, even as a large number of houses developed for middle and higher income group segments remain vacant. Clearly, the real estate sector needs to rethink its product-market focus.

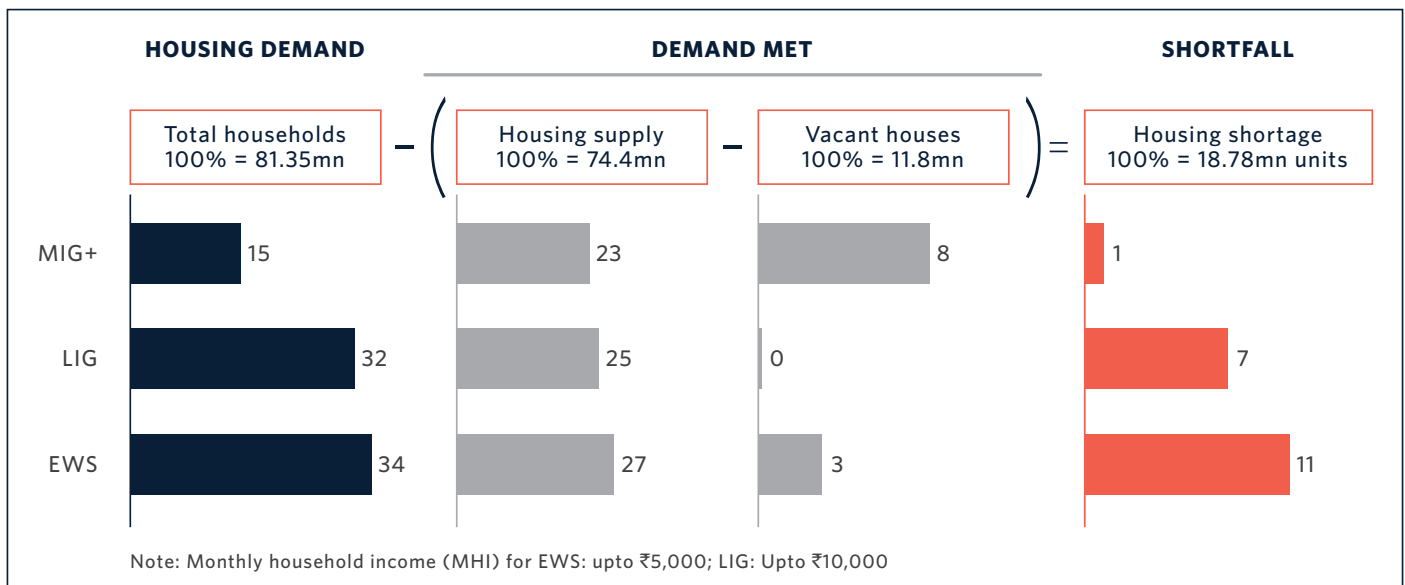


Figure 2: Estimated urban housing demand, supply and shortage, 2012

The newly elected Government in New Delhi has announced an ambitious vision to address this shortage by providing housing for all by the year 2022. In urban India alone, we estimate that the fulfilment of this vision will call for the creation of an incremental 43 mn housing units over the next 8 years, to meet current shortages and incremental demand during this period. This corresponds to a market opportunity of ~INR 7,800,000 crore at current prices.

¹ Estimated for the year 2012 by a task force appointed by the MHUPA

PUBLIC-PRIVATE PARTNERSHIP IS THE LIKELY MODEL FOR AFFORDABLE HOUSING DEVELOPMENT

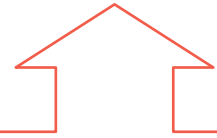
As in other parts of the world, we expect that public-private partnerships will be the cornerstone of the strategy to deliver affordable housing in India. The role of the public sector would largely be limited to creating an enabling framework (supportive policy, procedural simplification, access to finance for developers and home-buyers), and the private sector would take the lead in sponsoring projects.

A wide range of policy interventions have been under consideration in the affordable housing space, and clarity on these will emerge in the coming weeks.

FINANCIAL INCENTIVES	<p>Concessions in development charges, service tax exemption, tax rebates, etc.</p> <p>Exploring new avenues for financing (provident funds, FDI, etc.)</p> <p>Strengthening of AHP scheme</p>	<p>Priority sector status for affordable housing</p> <p>Increasing restrictive size of subsidized loan and moratorium period for consumers</p>
	<p> SUPPLY SIDE</p>	<p> DEMAND SIDE</p>
NON-FINANCIAL INCENTIVES	<p>Single window clearance and fast track approvals</p> <p>Improving land availability</p> <p>Revision in DCR; i.e. FSI increase, creation of affordable housing zones, etc.</p>	<p>Improving end-consumer access to finance</p> <p>Awareness programs to improve financial literacy, skill development, health & education among consumers</p>

Figure 3: Policy interventions under consideration

HOW READY IS THE PRIVATE REAL ESTATE INDUSTRY TO CAPITALISE ON THIS OPPORTUNITY?



Traditionally, the suppliers of affordable and low-cost housing stock have been the public sector (e.g., State Housing Boards), or small / local developers. However, given the large mismatch between the development requirement and the capacity of these players, it is imperative that large private real estate developers enter the space.

In general, organised / large real estate developers are poorly equipped to cater to the affordable housing market - their product design is wasteful,

their costs too high, their market focus is on non-users (investors), their business models are founded upon appreciation in property prices... the list of areas where the industry needs to reinvent itself is long.

Developers that have chosen to do this retooling, such as Tata Housing, demonstrate the scale and profitability possibilities offered by this market even without reliance on policy / subsidy support, and offer valuable lessons for the industry.

TATA HOUSING

Entered the affordable and low-income (LIG, EWS) housing sector in 2007

Affordable housing has driven topline growth of 64% compounded between 2006 and 2013

~50% turnover from affordable and low-income housing in recent years

Attractive returns-after-tax profit margin of ~14% and RONW of 30% in FY-12

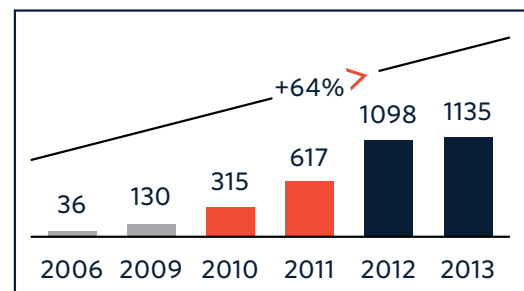
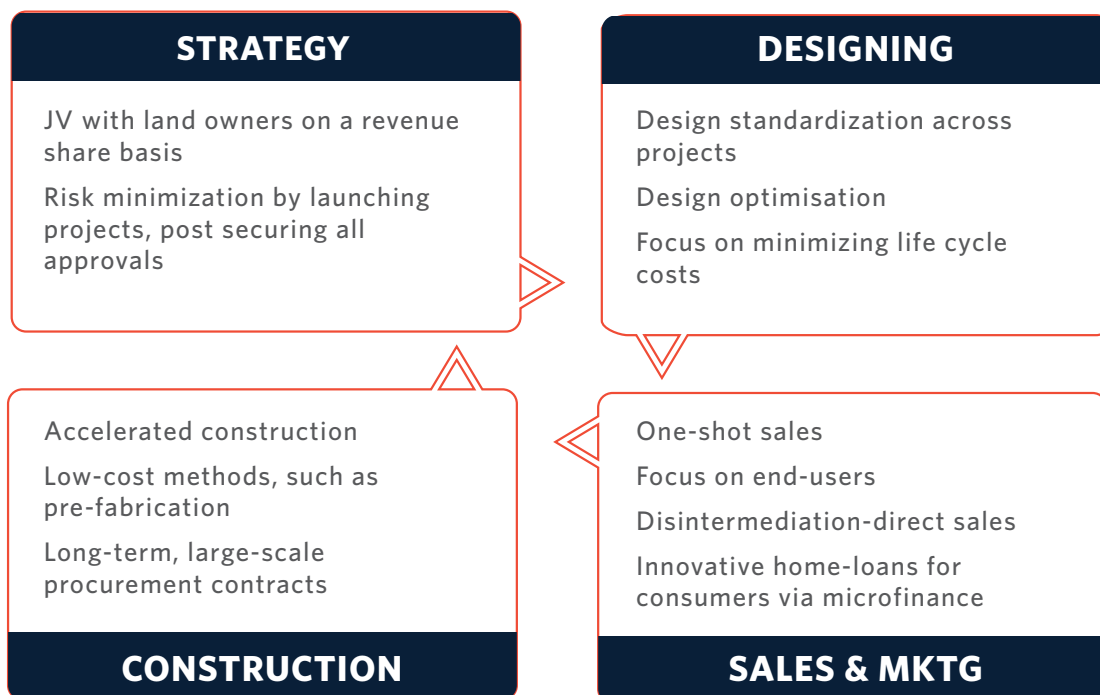


Figure 3: Tata Housing revenue(₹crore)

STRATEGIC INTERVENTIONS FOR THE AFFORDABLE HOUSING SEGMENT



REINVENTING THE DEVELOPMENT MODEL

The organised Real Estate development industry needs to consider multiple interventions preparatory to the opportunity offered by the affordable housing market.

INTERVENTION AREA	ILLUSTRATIVE INTERVENTIONS
Development strategy	<ul style="list-style-type: none"> Large scale projects (3 to 5,000 dwelling units at a single location) Faster project cycles JV with land owners on a revenue-share model, to reduce initial investment
Product	<ul style="list-style-type: none"> Efficient product - maximisation of carpet to saleable area ratio Re-configuration of private and shared spaces / facilities, ensuring quality of life does not suffer on account of smaller dwelling unit Flexible designing enabling multi-functional use of space
Optimizing development costs	Design <ul style="list-style-type: none"> Design standardization and re-use Optimisation - e.g., structural design
	Materials cost <ul style="list-style-type: none"> Use cost-effective materials - e.g., substitutes for conventional clay bricks Buy standardised materials, at large scale Seek out least cost sources
	Contracting <ul style="list-style-type: none"> Develop contractors / sub-contractors with capabilities required for the space - learn from the automotive industry Select the right contracting model
	Speedy construction <ul style="list-style-type: none"> Secure a strong and networked liaison team, for efficiency in securing approvals Construction methodologies - e.g., modular formwork systems, construction automation, pre-fabrication, etc.
	Project management <ul style="list-style-type: none"> Rigour in project planning and control Site organisation - manpower, layout, etc.
	Wastage elimination <ul style="list-style-type: none"> Capacity balancing between materials, equipment, labour Minimise waste through better planning / procurement / offsite processing - e.g., rebars, tiles, window panes Productively utilize waste generated at site
Marketing and sales	<ul style="list-style-type: none"> Targeted at end-users (vs. investors) Faster sales velocity Secure home finance solutions for buyers Secure own cash flows through upfront buyer diligence

A large-scale, profitable, sustainable, and low-risk opportunity awaits developers who choose to address these capability gaps. For others, an uncertain future beckons.

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Areté Advisors LLP (Areté) is a boutique, sector-focused management consulting firm with offices in New Delhi and Mumbai, India. Arété works with corporate clients in the Agriculture & Foods, Construction, Healthcare, Logistics, Real Estate and Retail sectors.

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