

# Affordable Housing: Penetration in Indian Deeper Markets



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## Introduction

India is the world's 5th largest economy, poised to touch a **~INR 410 Lakh Crores GDP** mark in the near future. One of the consequences of being the fastest growing large economy is a rapid rate of urbanisation – not just in the big metros, but also **Tier 2 and Tier 3** towns and cities.

As a result, today, Indian cities are facing high pressure on the resources, and civic amenities. Most importantly, there is a gap between the demand and supply of housing options. To bridge the gap, a growing city must start by providing affordable housing to meet their basic needs.

## Market Overview: Looking at the Big Picture

Post-pandemic, affordable housing has become a market focal point, driven by key factors such as increased participation from 'Real Estate Developers, Expanded Financing Options, Rapid Urbanization, Shift Towards Smaller Nuclear Families, and Rising Income Levels'. As of FY'24, India's Affordable Housing Market is valued at **over 1 Lakh Crores**, supported by a middle-class population expected to **exceed** the count of **600 million** by 2025.

The sector is on the verge of experiencing significant growth, propelled by **increased public and private investments**, advancements in **digital mortgage platforms**, and **supportive regulations**. These elements will act as catalysts for transforming the affordable housing market, meeting the needs of the growing population, and fostering inclusive economic development.

## Can Affordable Housing Penetrate across the Nation seamlessly?

Affordable housing holds immense potential to permeate across India's diverse landscape, driven by a confluence of factors headed to reshape the housing finance sector. The demand for affordable housing solutions is escalating, especially in **Tier 2 and Tier 3 cities** where urban expansion is prevalent. Government initiatives and support continue to incentivize developers and homebuyers alike, fostering a conducive environment for growth. If these trends converge, the landscape of affordable housing in India is set to undergo a good transformation, offering substantial opportunities for stakeholders across the housing finance spectrum. But to penetrate across the Nation seamlessly, there are variety of challenges to tackle along and overcome in this journey.

These include **Infrastructure Deficits in Urban areas**, **Low private sector participation** and **Regulatory Hurdles** due to perceived risks and lower returns. To tackle these challenges, collaborative efforts among the government, private sector, and stakeholders are crucial.

## Digital Lending: Diving Deeper with Technology

The landscape of housing finance in India is undergoing a transformative shift, driven by rapid advancements in technology and innovative solutions. With internet usage soaring from **15% to approximately 55%** in the past decade, even residents in **Tier 3 and 4 cities** are embracing digital technology. This surge in digital literacy and connectivity is reshaping the financial industry, as **~300 million Indians** actively use digital payment applications. Recognizing this shift, the focus on **Digitization** and **Pre-approved / Pre-qualified (PA/PQ)** loans is driven by easier operations and lower sourcing costs, increasing profitability for lenders. Additionally, using alternative credit scoring models and non-traditional data sources helps lenders evaluate individuals without traditional credit histories, making credit more accessible and promoting affordable housing.

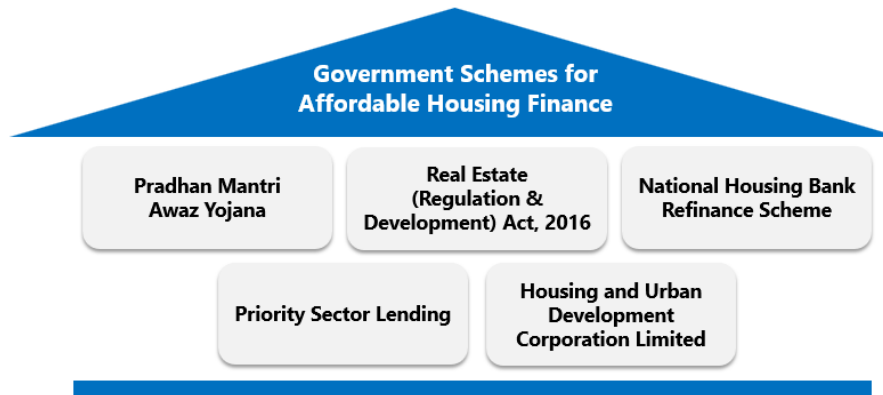
**Integrating Geo-tagging technology** to accurately identify property locations, ensuring more transparent and efficient property valuations and loan disbursements can be a boon to Affordable Housing Financiers along with new age initiatives such as **AA (Account Aggregator)**, **ONDC (Open Network for Digital Commerce)**, **e – NACH**, **Online KYCs**.

*"With all these functionalities, let us imagine a family in a **Tier 2** town, long dreaming of owning their first home. What once seemed like a dream became achievable through the power of modern technology. Thanks to digital lending and its innovative approach, the family received a **Pre-qualified Loan** offer directly on their smartphone. With the rise of digital literacy and connectivity, the family can use a super app that assesses their eligibility through **alternative credit scoring**, considering their regular mobile payments and utility bills.*

*The process was transformed with the usage of e-NACH, enabling automatic payments with unmatched convenience and reliability. Gone are the days of manual transactions and tedious paperwork. Coupled with this, **online KYCs** (Know Your Customer) shall provide a rapid and secured way to verify identities, eliminating delays and simplifying the entire process. This shows that with the **right digital tools**, owning a home is now within reach for anyone, no matter where they live or what is their financial situation. This change doesn't just make things easier; it makes affordable*

housing a real possibility for many families who once thought it was out of their reach. It's a groundbreaking change that opens doors to new possibilities, turning what was once out of reach into a reality for families residing in **Tier 3 and Tier 4 markets.**"

### Strong Government Support and Policy Empanelment:



Since Independence, the Indian governments have prioritized affordable housing as a key to **poverty reduction**. Government support is crucial for creating an enabling environment for affordable housing in India, essential for sustainable development and financial inclusive growth, such as:

- The **NHB Refinance** initiative provides funds to home loan companies at reduced interest rates for affordable housing, significantly boosting the housing sector's growth by **lowering the cost of funds** and **extending credit to Priority Sector Lending (PSL)** segments.
- The **Pradhan Mantri Awaz Yojana (PMAY)** has been pivotal in providing affordable housing to urban poor, focusing on women, minorities, and economically weaker sections. To further address housing needs and improve the quality of life for all citizens, we can expect support from our government to expand PMAY 2.0, aiming to construct **3 crore houses** in rural / urban areas and reintroduce **Credit Linked Subsidy Scheme (CLSS)** to provide relief for homebuyers in the affordable space.
- Regulatory reforms like the **Real Estate Regulation and Development Act 2016 (RERA)** have enhanced transparency and accountability in the real estate sector, boosting investor confidence and protecting homebuyers.
- **Tax incentives** and **exemptions** for affordable housing projects and incentivizing developers to undertake projects in underserved markets. A conducive policy environment promoting inclusive growth and addressing India's diverse housing needs can meet the current demand for affordable housing and lay the foundation for a more equitable and prosperous future.

### Private Sector Participation:

The private sector will play a pivotal role in democratizing access to affordable housing, particularly in deeper markets. Through **innovative financial products** and **strategic partnerships** with government initiatives, private housing finance companies are driving a small growth. These companies leverage their expertise in risk assessment and customer segmentation to tailor solutions that cater to diverse income groups.

Private companies are at the forefront of incorporating innovative construction technologies and materials that reduce building costs in such deeper markets. Techniques such as modular construction, prefabricated buildings, and use of sustainable materials are gaining traction. These innovations not only **lower the overall cost of housing** but also **enhance the quality of homes**.

Another important vertical which is coming into light is the **Public-private partnerships (PPPs)**, which provides a strategic framework for governments to share risks and leverage private sector expertise, facilitating scalable solutions aligned with public policy objectives.

If the Private Sectors are provided more incentives and support, they will bring efficiency and scalability to affordable housing projects. With their streamlined processes, project management expertise, and economies of scale, with ease they deliver **housing units faster and at lower costs** compared to **traditional methods**. This efficiency will be highly crucial in deeper markets where the demand for affordable housing is urgent and growing.

### Conclusion

The rise in affordable housing construction addresses the pressing demand for economical housing solutions, supporting the aspirations of millions of Indians for decent living spaces. This growth also stimulates **economic activity, creating jobs in construction, real estate**, and related sectors, thereby boosting local economies.

The future of affordable housing in India hinges on proactive policy interventions, technological innovation, and inclusive development strategies that empower all segments of society. By harnessing these elements, India can not only meet its housing targets but also enhance the quality of life for rising population of **144 Crores as of July 2024**,

ensuring sustainable urban growth and economic resilience in the years to come.

In conclusion, collaborative efforts between government, private sector, and technological innovation will be a major driver in achieving the goal of affordable housing. By continuing to innovate and expand access to housing finance in deeper and deeper markets, India can ensure sustainable urbanization and equitable development across the country.

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