

# Housing Policy

for the Mumbai Metropolitan Region



BOMBAY  
*first*

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## CHAIRPERSON'S NOTE

### HOUSING SUB-COMMITTEE BOMBAY FIRST

You have before you a paper on housing problems and policies in the Mumbai Metropolitan Region. While the information this paper contains is useful in many ways, it skirts some issues central to understanding the current housing situation, presumably to avoid statements that will annoy Government. What I propose to do in this introductory note is to draw some of these issues to your attention.

First, we are all aware that a land mafia exists in Mumbai, which works in close co-ordination with some of our politicians. Although we have some good and reliable builders, there is no denying that after smuggling became irrelevant following the reforms of the early 1990s, that mafia moved partly into films, and partly into real estate. It is a fact to keep in mind as we discuss our housing policies.

Second, it should be obvious that the most important step towards affordable housing would be to bring more land into the market. And to anyone observing the development scene in Mumbai it should be equally clear that all possible measures are being taken to keep land in short supply. Our major transportation projects, like the Bandra-Worli Sea Link or the Versova-Ghatkopar metro links, all address already built-up areas, while the Sewri-Nhava Sheva link, which would open up access to vast areas on the mainland, languishes on one pretext or another. The Urban Land Ceiling and Regulation Act (UCLRA) has been repealed, at the insistence of the Jawarhal Nehru National Urban Renewal Mission (JNNURM), but great care has been taken not to withdraw the earlier cases under ULCRA, so much of the land still remains locked up and not available for development. Similarly, salt pan lands are endlessly talked about, but nothing happens because Government and the land mafia in fact do not want more land on the market: after all, you make more money out of the spiraling prices resulting from scarcities than you could out of the hard work that goes into more construction.

Third, there has been much talk about the need to have more rental housing. Most cities have about half or even more of their housing available on rental. In Mumbai, if you take out the properties with rents frozen at World War II levels, the proportion of rental housing is negligible, except within slums where the Rent Act does not apply. Who is going to own the new rental housing? If we except private enterprise to participate, this will not happen unless the Rent Act is abolished. There are ways of doing this, which would be palatable to both tenants and landlords, and this is something we need to discuss keeping in minds both their interests. But unless this Act is removed, no private party will invest in constructing housing for rental. Leave and license is no substitute for removing the Rent Act, because of the experience in 1973, when the Government abruptly declared that all leave and license premises, until then a steadily growing market, with immediate effect came under the purview of the Rent Act. The fear is that



when the numbers get large enough, Government will do the same populist thing again. So as long as the Rent Act remains on the books, private investment for rental properties is the purest wishful thinking.

I bring attention to these unhappy realities, which tend to be brushed under the carpet during most discussions on housing policy, because it will be impossible to resolve Mumbai's housing problems unless obstacles such as these are identified and confronted. Only then can we put in place housing policies and programmes that do not merely exist on paper, but are capable of achieving their aims of ensuring affordable housing to all Mumbai's citizens.

**Shirish Patel**

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## Housing Policy for the Mumbai Metropolitan Region (MMR)

The Mumbai Metropolitan Region suffers from an acute shortage of affordable housing. In 2008<sup>1</sup>, about 2.3 million households in Greater Mumbai and close to a million households in the Rest of MMR could not afford a basic housing unit. Against the backdrop of continued population growth, rising incomes and appreciation of property prices, the challenge facing the city of Mumbai in ensuring access to quality housing for all, is daunting. Much will depend on the ability to develop a strategy that delivers sustainable affordable housing solutions to the diverse constituents of the region.

This paper prepared by Bombay First<sup>2</sup> outlines potential approaches to ensure the creation of adequate affordable housing stock in MMR. The first section of this paper defines 'affordable housing' and outlines the factors that will continue to make the provisioning of affordable housing a challenge – in particular strong population growth and the higher long term appreciation in property prices vis-à-vis income growth. The second highlights strategies adopted by various countries to create adequate affordable housing, and the third discusses principles for designing affordable housing strategies. Finally, the last section outlines a combination of initiatives to deliver sustainable housing in MMR.

### DEFINING AFFORDABLE HOUSING

Globally, housing is considered affordable, if a basic housing unit, providing minimum personal space and basic amenities, is accessible at 20-40 per cent of the gross household income for either rent or mortgage. However, the requirement of minimum personal space differs across countries and even among developing countries there is considerable variation. Historically, the Indian government has defined basic housing units as being between 260-275 square feet that is, an average of 50-60 square feet per capita space. In 2008, a High Level Task Force on 'Affordable Housing for All' set up by the government suggested that affordable housing for low income groups, i.e. those with gross annual incomes below Rs. 90,000 should be between 300 to 600 square feet in area and be accessible at 30 per cent of gross household income.

We recognise that affordable housing should provide for a range of size options catering to the needs of households of different sizes and incomes, as opposed to being limited to a single size. However, for the purposes of analysis, this policy considers a basic housing unit to comprise 275 square feet in carpet area with attached sanitation and piped water, accessible at 30 per cent of the gross household income.

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<sup>1</sup>Analysis based on the assumption that an affordable house has to fall within 4 times a household's gross annual income, estimated 2008 household income and average residential prices of Rs 5,400 per square feet in Greater Mumbai and Rs 2,500 per square feet in the Rest of MMR. The basic housing unit considered is a 275 square feet carpet area unit with attached sanitation.

<sup>2</sup>McKinsey & Company supported this effort that includes inputs from members of the Bombay First Housing Committee



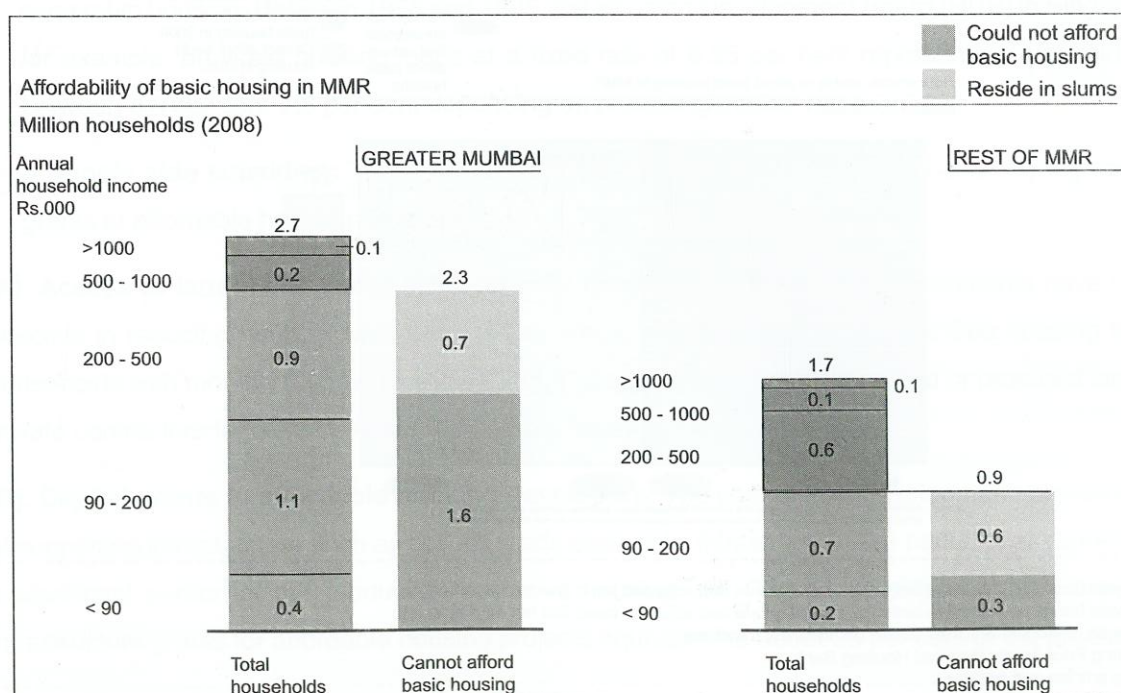
The MMR region represents a unique challenge for those concerned with its urban growth. While in most of urban India, the lowest income groups, are unable to access basic housing, in the Greater Mumbai region of MMR – which boasts amongst the highest housing prices in urban India – the challenge of accessing basic housing extends to even higher income categories i.e. households with gross annual incomes of Rs 200,000 to Rs 500,000. Further, while affordable housing is highly relevant for all income groups, the problem is most acute in lower income groups. Therefore this policy focuses on the delivery of affordable housing to the lowest income groups i.e. those earning below Rs. 90,000 per annum and between Rs. 90,000 and Rs. 200,000 per annum

### FACTORS CHALLENGING THE PROVISIONING OF AFFORDABLE HOUSING IN MMR

The shortage of adequate housing in MMR is already acute. In 2008, about 2.3 million households in Greater Mumbai and close to a million households in the Rest of MMR could not afford a basic housing unit. About 60 per cent of households in the Greater Mumbai region and about 20 per cent of households in the Rest of MMR reside in unsanitary slums. Meanwhile numerous households continue to reside in extremely congested conditions in chawls and in dilapidated buildings. The existing shortage will be compounded by continued demand for affordable housing in MMR that will be driven by increasing population growth and long term appreciation of property prices. (Exhibit 1)

#### Exhibit 1

In 2008, 3.2 million households could not afford basic housing in MMR



Source : Analysis based on an affordability index of 4, estimated 2008 household income growth and average real residential prices of Rs. 5,400 per square feet in Greater Mumbai and Rs. 2,500 per square feet in the Rest of MMR. Basic housing unit considered is a 275 square feet carpet area unit with attached sanitation



• Continued and rising population growth

Continued migration is expected to increase the population of the MMR region from 21.6 million in 2008 to 33–34 million by 2025<sup>3</sup>. In contrast to slow population growth in the Greater Mumbai region, the rest of MMR is expected to grow at a CAGR of 3.5-4.5 per cent. Therefore, by 2025, the rest of MMR would have outgrown Greater Mumbai to house a population of 17–18 million.<sup>4</sup>

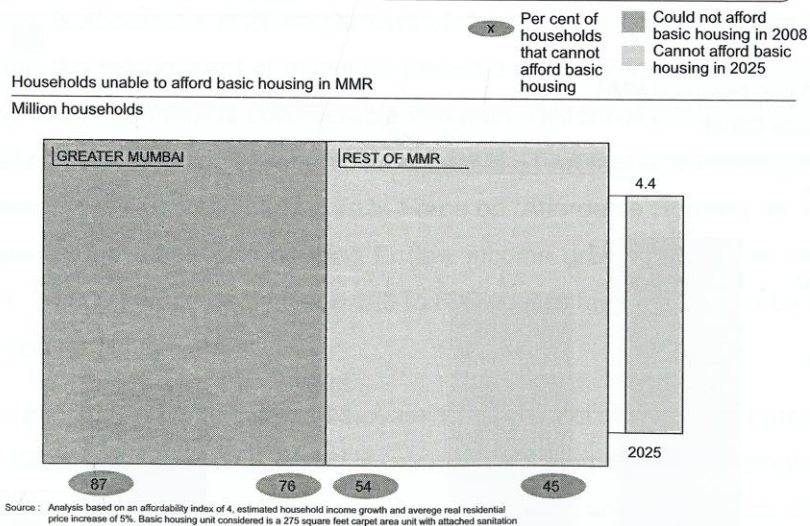
• Long term appreciation in property prices will outweigh rising incomes

This increase in population will be accompanied by sustained economic growth expected to drive income growth in MMR. Average per capita income is expected to increase 2.7 times from Rs 61,000 to Rs 169,000 and the share of households earning less than Rs 200,000 per annum is expected to decline from 54 per cent in 2008 to just over 20 per cent by 2025.

In addition to rising incomes, access to affordable housing will also depend on property prices. In the short term, property prices in India have been subject to significant fluctuations and MMR has been no exception. For example, the region witnessed an average real appreciation of 10-12 per cent per annum between 2002 and 2007, followed by a real decline of 10-20 per cent in 2008-09.<sup>5</sup> At an estimate of 5 per cent real long term property price appreciation, despite a significant increase in incomes, over 2.6 million households in Greater Mumbai and 1.8 million households in the Rest of MMR will be unable to afford basic housing. (Exhibit 2)

Exhibit 2

By 2025, an estimated 4.4 million households will not be able to afford basic housing in MMR



<sup>3</sup>Analysis based on trend line birthrate, mortality rate and adjusted trend line net migration rate

<sup>4</sup>Analysis based on trend line birthrate, mortality rate and adjusted trend line net migration rate

<sup>5</sup>Estimate of income brackets based on historical trend line

<sup>6</sup>Housing Price Index: National Housing Bank

<sup>7</sup>Press articles and reviews



## GLOBALLY FOUR MEASURES CHARACTERISE THE DELIVERY OF AFFORDABLE HOUSING

As is evident the task before MMR to create the affordable housing stock necessary to meet the demands of a growing urban population is daunting. Nevertheless, the challenge of creating affordable housing is one of global concern and an analysis of efforts underway in cities across the world points to four key measures undertaken to ensure the delivery of affordable housing .

### • **Subsidies to bridge the gap between financial capacity and cost of housing**

Given that fully priced market created housing has often been unable to meet the housing needs of lower income groups many countries have used a combination of demand-and-supply side subsidies to bridge the gap.

> **Demand-side subsidies:** Income linked rent subsidies are the most widely used form of demand side subsidies. The Shanghai city government for example, offers a minimum rent subsidy of US\$ 80 per month to hukou households having an annual income of less than US\$ 3200 in the central district of the city. Residents of social rental housing complexes in the United Kingdom are supported by the Housing Benefit Scheme – a US\$ 20 billion annual spend that accounts for over 70 per cent of government spend on affordable housing. The scheme provides income-linked subsidies to residents to facilitate rent payments. New York City provides rent subsidies equivalent to the difference between fair market rents and 30 per cent of the household income of the beneficiary through Section 8 vouchers.

In addition, interest subsidies that lower the cost of housing finance are also used to promote ownership housing. Between 1968 and 1985, the Housing Development Board (HDB) in Singapore for example, provided housing loans at a fixed rate of 6.25 per cent representing a subsidy of between 0.8 per cent-7.6 per cent depending on prevailing market rates.

> **Supply side subsidies:** These are of two types: providing access to land and offering capital grants to affordable housing developers.

**(A). Access to land:** Land grants either at lower rates or free, by several governments have been effective in reducing housing unit costs. South Africa, which aspires to provide free housing to all households with monthly income less than US\$ 450 provides government owned or procured land to private contractors for development of affordable housing units.

**(B). Capital grants to affordable housing developers:** The cost of land development, provisioning of supporting infrastructure such as access roads and public infrastructure like parks, et al represents a significant portion of the production cost of a housing unit. The Chinese government provides infrastructure grants for affordable housing projects equivalent to about 25 per cent of the production

<sup>8</sup>Based on interviews with international experts, web searches, research reports

<sup>9</sup>Fair market rents are rents charged by market properties of affordable housing specifications. Fair market rents represent the 40th percentile of the market rent distribution in an urban locality





cost. Housing associations in the United Kingdom receive capital subsidies from the government for 25–40 per cent of the production cost of a single unit of land.

- **Active government intervention to ensure necessary land allocation**

Active government intervention has characterised the efforts of many countries to ensure land is allocated for affordable housing. Singapore has used “eminent domain” – the power of the government to assume ownership of land for public good in the past to transfer land to the HDB for public housing. Cities in the United Kingdom have used the Section 106 urban planning mandate<sup>10</sup> to require market housing developments of more than 25 units to allocate land for affordable housing. Section 106 led mandates have led to creation of over 50 per cent of the affordable housing stock in the United Kingdom.

- **Private sector participation through appropriate incentives and risk mitigation mechanisms**

Globally, different incentive structures have been adopted to spur private sector participation in affordable housing creation and funding.

- > **Tax credits and incentives:** The New York City government provides tax credits to private developers to allocate floor area in housing projects for affordable rental housing. The credits, which represent a part of the cost of the housing project are sold by the developer to raise funds for the housing project.

Buyers of the tax credits can then use it to offset equivalent future tax payments. Another example is provided by the policy implemented by the South African government. It offers accelerated depreciation to reduce the tax liabilities of developers of low income rental units.

- > **Additional development rights:** States like California in the United States which have active inclusionary zoning policies that mandate construction of affordable housing units in market housing developments, permit developers to construct up to 20 per cent additional area or housing units than permitted as per the local development plan, as an incentive to create affordable housing units. The affordable housing policy of Shanghai allows an additional Floor Area Ratio (FAR) of 0.5 or an incentive of close to 15 per cent for affordable housing projects.

- > **Mortgage insurance:** Access to a greater share of housing finance or a higher loan-to-value (LTV) ratio can reduce down payment requirements and make ownership housing accessible to households with limited financial savings. To compensate financial institutions on the increased exposure, mortgage insurance that covers a part of the loan outstanding has been a risk mitigation mechanism adopted by many countries.

- > **Promotion of rental housing as a means to ensure access to basic housing**

Given the higher risks and costs associated with lending to lowest income segments, rental housing has often been an alternative adopted by many countries. While the US has emphasised

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<sup>10</sup>Section 106 governed by the Town & Country Planning Act of the United Kingdom requires developers to commit with local authorities to building affordable housing units in any housing development prior to securing planning approval



a home ownership policy, the country's rental housing programmes operated by city housing authorities cover 4.3 million households that comprise the bottom 20-25 per cent of the household income pyramid. In social rental housing units in the United Kingdom, only 38 per cent of residents are economically active. Cities such as Shanghai, Johannesburg and Singapore provide rental housing solutions to the bottom 16 - 34 per cent of the population.

### **DELIVERY OF AFFORDABLE HOUSING SHOULD BE BASED ON SEVERAL GOVERNING PRINCIPLES**

The complex nature of the housing shortage in MMR and the experiences of other countries suggest any proposed housing policy should be governed by a set of principles that stakeholders agree upon. In this paper, we offer a set of six principles that we believe will allow MMR to create a policy framework that could spur affordable housing stock that benefits the region and its residents.

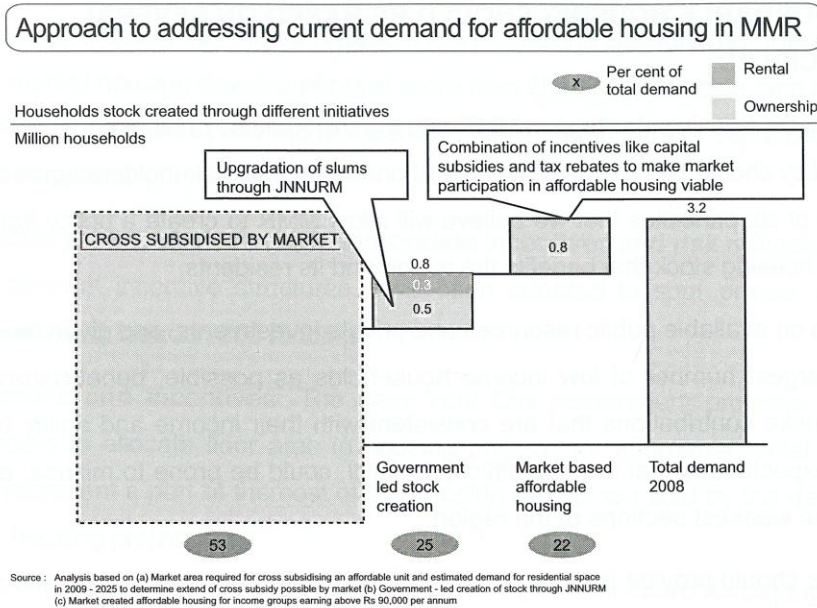
- Given constraints on available public resources and private investments, and given the objective of benefitting the largest number of low income households as possible, beneficiaries should be encouraged to make contributions that are consistent with their income and ability to pay. Free housing raises expectations that may be difficult to fulfill, could be prone to misuse, and may not always benefit the weakest sections of the region.
- Housing solutions should provide for a minimum level of private per capita space and amenity per capita space, to ensure sustainable living
- Affordable housing must be accompanied by a corresponding build up of basic infrastructure capacity to ensure hygiene levels for the provision of a range of services including water, sanitation, sewage collection and treatment, and storm water drains
- Housing solutions need to factor in the economic and social linkages of residents. In light of this reality, slum dwellers whose livelihoods and social networks are dependant on their location, that is, the slums they live, should ideally be rehabilitated on site
- Affordable housing solutions should be flexible in terms of different unit sizes and configurations that can effectively cater to the diverse needs of households.
- Alternate lending models need to be developed that enable lower income groups to access housing finance. This is because banks and housing finance corporations (HFCs) do not typically operate in this segment given the high costs and risks associated with serving this segment. Conventional housing finance models are therefore, often not accessible to the lower income groups.



### A COMBINATION OF INITIATIVES CAN DELIVER SUSTAINABLE AFFORDABLE HOUSING IN THE MMR REGION

With these governing principles in mind, four initiatives by the state government supported by enabling measures by the central government can deliver sustainable affordable housing in MMR. (Exhibit 3)

Exhibit 3



Initiatives by the state government to create affordable housing stock could include introducing inclusionary zoning mandates, directly participating in housing stock creation, and making interventions in the housing market.

#### Introduce inclusionary zoning mandates

The MMR region should actively adopt and implement inclusionary zoning. Inclusionary zoning, that will require market housing developments to commit to construction of affordable housing will ensure affordable housing creation is integrated with developments in the housing market.

The experiences of other cities across the world suggest an inclusionary zoning policy for MMR could address three key areas:

- (A). **Applicability:** The policy should be applicable on developments that are large enough to permit the simultaneous creation of affordable housing. For MMR, housing developments on a plot area upwards of an acre could be considered for inclusionary zoning.
- (B). **Incentive structure:** A combination of incentives in the form of additional development rights (FAR), capital subsidies in lieu of infrastructure development charges and income tax rebates could be provided to ensure economic viability. These additional development rights should in turn be linked to area property prices, availability of supporting physical infrastructure and the



share of floor area allocated for affordable housing units. Further, incentive structures should not be fixed in time but instead should be reviewed annually and revised accordingly.

**(C). Interlocks:** Active interlocks need to be in place to ensure that affordable housing units are actually constructed. Some examples include conditional approval of building plans and provision of completion certificates.

### **Direct government participation in building affordable housing**

While inclusionary zoning mandates is a useful policy intervention, direct government participation in building affordable housing is also required. Despite mandates that spur private sector investments in the development of affordable housing stock, it is important to recognize that private sector investment fluctuates with market cycles. This could result in a variation in the quantity of affordable housing stock created through such mandates. Given the magnitude of the affordable housing challenge in MMR and growing demand, a steady build-out of affordable housing stock is critical.

The economic viability of inclusionary zoning policies and other policies<sup>11</sup> that offer additional development rights for affordable housing creation is primarily ensured by sale of incentive floor area. The market, which purchases this incentive area through regular residential developments effectively cross subsidises affordable housing creation. Market demand for residential space is thus a key driver for the extent of affordable housing creation through cross subsidisation.

In essence, government interventions that complement the private sector through direct participation in the creation of affordable housing stock are needed. An important measure to facilitate this participation, could be to revitalise the Maharashtra Housing and Area Development Authority (MHADA) to spearhead the construction of these units.

### **• Emphasise rental housing as a strategy to access affordable housing**

Rental housing is an effective tool to provide housing solutions to the lowest income groups who do not have access to conventional housing finance. A vibrant low income rental housing market can offer effective housing solutions to migrant workers, residents of congested chawls and the 26 per cent of slum residents who rent accommodation in slums.

The MMR region should in the short term target to create 1-1.2 million rental housing units, catering to about 35 per cent of the affordable housing stock.

An effective low income rental housing policy will have to consider three elements:

**(A) Affordability:** A significant section of migrant workers are from the Economically Weaker Section (EWS), earning an average of Rs 2500 per month. For rental housing to be affordable, the region could provide options starting from as low as Rs 750 per month. These could be dormitories or single room units with shared sanitation.

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<sup>11</sup>Eg: slum redevelopment with provision of incentive floor area



**(B) Continued creation of low income rental stock:** Part of the housing stock created through inclusionary zoning mandates and with direct government participation should be allocated for rental housing.

**(C) Effective management of rental stock:** Property management companies may be necessary to manage rental housing. Such initiatives could include either private sector or social sector enterprises that secure tenants, collect rent and provide the required maintenance to ensure that these housing units are part of vibrant sustainable communities.

• **Adopt a two pronged approach to slum rehabilitation**

With over 1.9 million households living in slums<sup>12</sup>, an effective model to rehabilitate slum dwellers is critical to addressing MMR's affordable housing requirements. The redevelopment of slums under the Slum Rehabilitation Authority (SRA) is the dominant approach for slum rehabilitation in Greater Mumbai. However, considering the magnitude of the requirement, an approach that focuses on slum redevelopment, along with upgradation, should be considered.

• **Market assisted redevelopment of slums**

The SRA approach to slum redevelopment recognises the tenure rights of slum dwellers and aims to provide subsidised formal or pucca accommodation either on-site at the slum location or nearby. It is cognisant of the strong economic linkages between slum dwellers and their place of residence and provides for commercial space in addition to residential accommodation in the rehabilitated slum. The economic interest of the developers carrying out the redevelopment is addressed through providing an incentive area that is proportionate to the area provided for rehabilitation units.

This approach could be more effective through the following considerations:

- > Slum dwellers could contribute towards the housing unit, based on a reasonable assessment of their income and ability to pay.
- > Recognising that different households have differing needs for space, households requiring space more than that provided by the basic rehabilitation unit, could have the option of purchasing additional area at the relevant rates.
- > Instead of a fixed incentive approach, an incentive structure linked to area property prices could be an effective strategy. Property prices vary significantly across MMR. An incentive structure that provides higher incentives for locations that have lower

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<sup>12</sup>2001 slum census adjusted on trendline to 2008; press search and MMRDA commissioned reports

property prices and lower incentives for locations that have higher property prices will ensure that slums across MMR are economically viable for redevelopment.

- > Rather than adopting a maximum FAR limit permissible after redevelopment on the slum site, the model should adopt site specific limits, taking into consideration access to physical infrastructure and open spaces.
- > Incentive allocations that property developers cannot use at the site of slum redevelopment can be used as transfer development rights (TDRs) in high development zones.<sup>13</sup>

#### • Government led rehabilitation of slums

Market assisted redevelopment of slums, is based on the market purchasing the incentive area, primarily residential and cross subsidising the rehabilitation units. The extent of redevelopment possible within a certain time frame is linked to the market demand for built-up space. Trends in the demand for residential space over the next 15 years suggest slum redevelopment alone cannot address rehabilitation demand in the MMR region<sup>14</sup>. The government will thus have to play a simultaneous role in slum rehabilitation. The government can participate in several ways - for example constructing formal apartments similar to redevelopment construction currently underway through the Basic Services to Urban Poor (BSUP) scheme under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). It could also construct single rise units as per the VAMBAY scheme operational till a few years back.

While much can be done by the state government, these initiatives can be complemented by several measures by the central government, particularly in improving access to housing finance, providing tax incentives to affordable housing development and increasing capital assistance through programmes such as the JNNURM. Providing a subsidy to offset the high operating costs of lending to lower income groups can help housing finance institutions address this segment either directly or through intermediaries such as micro finance institutions (MFIs) etc. Income tax rebates for the development of affordable housing projects with units less than a stipulated area, could also help spur investment in this segment and reduce end-user costs of affordable housing units. In addition, expanding the base of programmes like JNNURM can augment availability of capital subsidies for affordable housing projects.

#### CONCLUSION

Addressing the housing shortage is critical to the long term sustainability and vibrancy of the Mumbai Metropolitan Region. While several steps have been taken in the recent years to trigger the creation of affordable housing stock accessible to residents of all income groups, more needs to be done. These additional measures will require the effort and attention of all stakeholders.

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<sup>13</sup>The actual area in the high development zone accessible through the TDR is adjusted for the difference in prices between the TDR originating area and the high development zone.

<sup>14</sup>Analysis based on demand for affordable residential space between 2009-25 and residential incentive area required to subsidise a 275 square feet slum rehabilitation unit



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