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## Listed developers shy away from affordable housing segment amidst rising costs, lack of incentives



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Listed developers are shifting away from affordable housing, amidst a lack of government incentives and financial challenges.

According to data from real estate consultant ANAROCK, the share of sales in the affordable housing segment has decreased from 38 percent, pre-COVID, to 21 percent in the first half of 2024.

Experts say that, in FY25, this will drop further by at least 5-10 percent.

Several listed players, such as Signature Global, Shriram Properties and Puravankara, have moved to premium or luxury housing as they say the affordable housing segment is “no more viable”.

This comes at a time when home loan interest rates have steadily increased from 7 percent in 2021 to 8.79 percent in 2023, Vivek Rathi, who heads research at Knight Frank India, said. Currently, affordable housing in India is defined as a house or flat with a carpet area up to 90 sq m in non-metropolitan cities, and 60 sq m in major cities, worth up to Rs 45 lakh for both.

Pradeep Aggarwal, Founder and Chairman of Signature Global, said that the transition from affordable housing to premium and luxury housing is fundamentally because of a steep increase in land prices in the last couple of years.

"Raw material cost has also gone up in such scenarios as affordable housing projects are not viable from a business perspective. We have so far delivered 18,000-20,000 units in the affordable housing segment. Signature Global wants to do affordable housing but there has to be business viability," he said.

Last month, Bengaluru-based Shriram Properties hinted at changing focus from affordable housing segment to mid-segment housing.

In November 2023, Moneycontrol had reported that for all deliveries in H2FY24, the company is targeting 40 percent in the affordable segment (less than Rs 50 lakh ticket size). Of the 3.5 million sq ft to be delivered in FY25, about 1 million sq ft will be in the affordable segment. "Though there is booming demand for affordable houses in India, lack of policies and government incentives continue to be a challenge for the developers," Murali Malayappan, Chairman & Managing Director of Shriram Properties said.

Provident Housing, the former affordable housing arm of Puravankara, has slowly rebranded. Today, the company no longer calls itself an affordable housing wing, but a brand catering to first-time homebuyers.

#### Inventory drops by 50 percent

The share of affordable housing in terms of supply has dropped from 40 percent in 2019 to 18 percent in 2023. As many as 5.78 lakh units are currently available for sale across the top seven cities. Of these, nearly 24 percent is in the affordable budget category, priced below Rs 40 lakh.

Data from Knight Frank India shows that sales in the affordable housing segment have dropped from 63,485 units in H1 2022 to 46,178 in H1 of 2024 -- by almost 23 percent in just two years.

At the end of Q2 of 2024, Bengaluru saw 16,569 affordable housing inventory, compared to 19,127 in Q3 of 2023. Kolkata saw a major jump from 9,887 in Q3 of 2023 to 11,960 in the same period. Mumbai saw a marginal decline to 79,286 in Q2 of 2024 from 80,391 last year. Anuj Puri, Chairman, ANAROCK Group, believes that various factors in the last few years have prompted developers to shift their focus away from affordable housing and lean towards the premium and luxury segments.

The profits for developers in building affordable housing projects were wafer-thin even before the pandemic. Post-Covid, rising inflationary trends of raw materials, like steel and cement, and inflated labour costs put immense pressure on developers. Hence, they had no choice but to drift away.

#### Developers demand tax breaks

Additionally, many interest stimulants that were previously extended to developers of affordable housing have expired in the last two years. This important segment thus needs to be revived with high-impact measures like tax breaks, so that they will focus more on building affordable housing.

For instance, to boost supply and incentivise developers to build more affordable housing, the government should have re-introduced the "100% Tax Holiday" benefit they previously enjoyed under Section 80-IBA in the Finance Act, 2016. This section provided for major tax relief on the profits earned from developing and building affordable housing projects. As it is, amidst low buyer demand and rising input and land costs, developers find it unviable to build affordable housing since their profit margins are almost negligible.

According to Pankaj Kapoor, managing director at real estate data analytics firm Liases Foras, developers see about 30 percent return from a real estate project. However, in the affordable housing segment, the returns have steadily dropped by at least 10-12 percent.

Local developers in real estate hotspots like Bengaluru, Delhi, and Mumbai continue to gain from the demand arising out of the middle-class aspiration of owning a house.

Brokers in Bengaluru point out that local developers continue to provide major affordable home supply in ticket sizes less than Rs 50 lakh. Several such homes are already coming up in the outskirts of Bengaluru's eastern IT corridor of Whitefield. North Bengaluru has also placed itself as a hub for such houses, with land prices still affordable, compared to other parts of the city.

"In the segment where margins are low, local developers can acquire smaller land in locations where they are still affordable. This has kept the momentum of demand in the segment upbeat. Over the last few quarters, we saw at least a 25 percent jump in affordable housing," Kapoor pointed out.

While demand certainly remains high for the affordable housing market in India, buyers are currently in a wait-and-watch mode. "More than the listed developers, we have seen launches by smaller players. Unless there are more buyers, we may continue to see listed developers focus on luxury real estate," Puri said.

Experts say that the central government must seriously reconsider revising the pricing of homes within the affordable housing budget, taking into consideration city-specific market dynamics. As per the current definition, the size of units at 60 sq m carpet area is appropriate. However, prices of units (up to Rs 45 lakh) are not viable across most cities.

"For instance, for a city like Mumbai, a Rs 45-lakh budget is meaningless. It would need to be increased to at least Rs 85 lakh. In other top cities, the budget should be increased to at least Rs 60-65 lakh. With such price revisions, more homes would qualify for the affordable price tag, so more buyers can avail of benefits such as lower GST rates at 1 percent without ITC, government subsidies, etc.," Puri added. Aggarwal said that the government should provide some sort of subsidised land, so that affordable housing projects can be executed. To boost the segment, affordable housing zones should be developed in suburban areas that are near major cities and have proper connectivity. "For instance, there is huge land potential in suburbs around Gurugram such as Sohna region, Manesar region, Jhajjar-Pataudi Road, etc. So, here such zones can be developed."