

RESEARCH ARTICLE



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POLICY SUGGESTIONS FOR DEVELOPMENT OF AFFORDABLE HOUSING MARKET IN INDIA

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ABSTRACT

Development of 'Affordable housing' has become an urgent and important topic of discussion in India. Unlike in western countries where the social welfare system has been set up for many years and the public housing system also is mature, in most of Asian countries, the social welfare systems are still weak in relation to their large amount of low-income populations. The gap between rich and poor is considerable large, and is still increasing, many people with low-income could not afford their own houses since the minimum down-payment and the entry-requirement of real estate market are both increasingly high, the 'Affordable housing' is therefore very difficult to be developed appropriately under this circumstances.

This paper provides an overview of the development of 'affordable housing' around the world, in order to find out some applicable policy suggestions for the development of India affordable housing market from such previous experiences. Public housing system in U.S. and Sweden has a strength foundation for many decades, while India is a developing country with the more population in the world, in order to solve the housing problem, India government start to implement public housing policies and establish the 'public housing system'.

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INTRODUCTION

Affordable Housing

The house provides a 'necessary foundation' for every people to live during the social actions and physical actions. The price of real estate market became more unstable since the economy of many countries increased dramatically after World War II. House became 'more expensive' in many countries from the beginning of 21st century. There is a gap between high-income and low-income group. For low-income group, to own a comfortable house became one of the unaffordable dreams in

their lives. Providing affordable housing has become an urgent task for governments. Today have many governments around the world realized it and have been planning to take more actions on it. The U.S. government, Sweden's government and Singapore's government, for examples, have carried out many policies to solve the problem. Wallace published a research in 1995 that analyzed the affordable housing gap in US mainly by focusing on the federal financial support and the rules of "for-profit and non-profit" agencies.

There is no official definition of 'affordable housing' yet, but there is a wide acceptable definition about the 'target group' of 'affordable housing' that was defined by James E. Wallace: If a family's total monthly cost is less than 30% of householder's income the affordable housing policy would be applicable. Different countries have difference affordable housing policies; in Canada and United States, local governments seem firmly committed to increasing the availability of affordable housing through a variety of innovative subsidy programs.

The development history of affordable housing showed that western countries and eastern countries are in different situations and cannot share the same policies. The affordable housing system development started very early in U.S. and Europe, but in Asian countries, it started from the middle of 20th century.

Some of the high developed countries and areas in Asia like Singapore and Hong Kong started their affordable housing project from 1950s, which was quire early in Asian area. In the recent decades India government made very hard efforts to develop affordable housing for the low-income householders in order to keep the growth of society stable.

Purpose and Research Questions

The main purpose of this paper is to find out some applicable suggestions and policies for the development of India affordable housing market by comparing and analyzing the relevant experiences from other countries and areas. Many successful policies and development experiences of both western and eastern countries are introduced first. In order to find out if such experiences can be applied also in the market of India, the paper analyzes the possibilities by comparing the backgrounds, policies implement and other circumstances.

The paper also analyzes the current situation of India development. It indicates both potentials and challenges that could help both the government and potential investors to have a basic understanding of the affordable housing market and its possible developing directions in the future.

The paper mainly focuses on answering the questions about India below: Why is difficult for young householder to enter real estate market in India? What are the challenges for government to develop this market? What are the alternative options for government to solve the conflict in affordable housing development process?

Scope

Both developing and developed countries have had various type of public housing systems to help low income households. Central government of India will assist in construction of houses for Economically Weaker Sections (EWS) and Low Income Group (LIG) as part of group housing schemes of the States. These housing schemes will be implemented by the States through partnership with private sector or public sector.

- EWS - having an annual household income up to 1 lakh
- LIG - having an annual household income between 1 to 2 lakhs

Objectives

The objective of this project is,

1. To find out the exact problems in providing affordable housing
2. To develop affordable housing for low-income householders, middle-income householders and high-income householders
3. To recommend the solutions for true affordability to public, private and government sectors

GLOBAL AFFORDABLE HOUSING

Definition and Characteristics

Affordable housing is one part of the housing market in western developed countries as well as in eastern developing countries. The so called housing is the house that built for residential use which provides basically private and secure place for people to live in. There are many different ways to classified housing, for example, according the provided party standard, these are commercial housing and public housing; according to the business standard, there are general commercial housing and low-profit housing; according to the customers standard, there are social housing and business housing. Housing is not only has the

characteristics of commercial profit but social security protection. Affordable housing is an important part of social housing security protection, provided by local government to the customers who is low income household or has lower competition power in social market. Many countries government use affordable housing policy to organize the social security system.

The definition of affordable housing can be found in article that written by Iglesias:

"Affordable housing" is defined as housing that is legally restricted for the use of persons or households who meet specific income requirements

The 'Affordable housing' that is used in this paper can be exactly understood as the definition above. Moreover, affordable housing is provided or organized by central or local government to the low-income households and the people who has less competition in housing market.

The characteristics of affordable housing can be summarized as follow:

1. Government involving. As the main provider of affordable housing is not commercial real estate developers but the governments, affordable housing project is planned by the government including the location, housing type, building standards and the level of house price.
2. Consumers are fixed. There has limitation for the affordable housing consumers, like low-income crowd. Government has the principles for affordable housing purchase, like family members, income level and background. It should be noted that affordable housing market is opened to specific consumers.
3. Complicated applicant selection. In general speaking, the number of affordable housing supply is less than the demand, because if the supply is higher than demand, it will fall down the housing price and affect the commercial housing market.

Affordable Housing Policies

As a typical welfare benefit country, Sweden has a completed and clear affordable housing policy to support the low-income households, big-families, retire and workless people. One of the public housing characteristics of Sweden

housing policy is that government policies are not only provide public housing for low-income household but try to create a living environment for them with less different between low-income and high-income households. The proportion of the public houses that are developed by Sweden's government or by both the government and other develop companies to all the houses as a total is around 2/3 of rental housing, which is really a high percentage comparing to other western countries. The average living space of Swedish is 41 square meters, they have two rooms in average level, and 93.1% housing with bathroom, and 97.5% housing with central heating system, all of these showed Sweden is one of the highest housing standard countries in the world. But all of these achievements came after a long time difficult practice in Sweden housing development process.

From 1920s to 1930s, Sweden experienced a large scale of 'short of housing supply' as same as other developed countries. In the later 1930, 41% household living in Stockholm only has one room space or less in average, moreover there are lot of percentage were became to homeless. In this rough situation, Sweden government set variety housing policies some of them are still working today. The cores of these policies included: government take responsibility to make the long term country housing development plan, adopt a positive land policy to reduce housing development cost to increase housing construction, monitoring the price changing between the reasonable levels in housing market, provide variety tax and financial support for subsidy or direct subsidy to low-income and retire people.

Comments on Sweden's Social Housing Policy

After World War II, Sweden's government initiated many policies in order to achieve their housing goals: one is 'to rationalize and increase housing production in order to rise significantly the average housing standard'; and the second goal is "to equalize greatly the distribution of housing consumption'. The general policies of Swedish housing are framed by the state, and local government responsible for implement, such as, determined how to allocate the social housing to

low-income group and retire people. On the one hand, affordable housing policy of Sweden is based on the very strong social welfare system and the government provided full financial support to the low-income group to own their house. But on the other hand, the huge amount of subsidy cost government spending a lot until the raises around 1990.

The development of Public Housing in United State History and background

U.S. has the largest national economy in the world. It has the solid market foundation and strong growth power. Due to the economy booming, American government has the capital to develop large-scale construction project. In 1980s, American housing market had rapid development, the investment of house account 6% to 8% of GDP. In American, the core of housing policy include two main parts, one is encourage the affordable housing project, the other is provide financial support to the low-income household to own their house. Those policies achieved the ambitious government strategies that are economy and social stable development. Actually, the American housing policies have the long time development process.

Affordable Housing Policy

There are many households in U.S. are homeowners, the homeownership rate have increased for almost all groups in recent decades. In 1937, 'American Housing Act' was put into practice which marked the American government began to change the way of management from indirectly management to directly control management. As a corresponding changing, state government policy moved the housing support subsidies from mid-income household to low-income household, then the scale of public housing had been extend more and more affordable housing were built during that period. In 1949, the famous law in American housing development history was put in practice which called the Housing Act 1949, make the federal government should take responsibility to renewal housing and public housing. In order to keep country prosperity and stably growth, the government should make practical way to solve the housing problems, such as 'enact the provisions for low-rent

public housing, slum clearance, farm housing and housing research' to provide a health and quality living environment for every American household.

From the American housing policy development process, it is obvious that the government of American really tried hard to solve housing problem for the low-income household. The characteristics of American public housing included:

1. Multiple housing supplies. There are two main housing supply source, government direct building project and subsidy commercial housing developer. From 1930s FHA started to use government loans and provide subsidy to support local government to build public housing. From 1970s, the local governments reduce the direct building housing project but increase sustentation fund for the commercial housing developer to develop affordable housing and low-rent housing. For those housing developers, government provide tax free or low taxable, low-interest loan, low-price land using fee for them to reduce the development cost.
2. Rental price control and subsidy. Governmental through the legislation to limit the public housing rental price increasing unreasonable, price increase about 2% to 5% per year. Housing rent account 25% of housing disposables income. American government provides 4 ways of subsidy: tax subsidy, rental subsidy, cash subsidy and hosing coupon.
3. Financial support. Government proved financial support for low-income household to purchase housing. For example: low-interest and long-term loan guarantees, tax subsidy.

Comments on U.S. Public Housing Policy

The U.S. has the highest proportion of privately owned housing in the world; the housing policy is an important part of national public policy. The core of this housing policy is to help low-income group to purchase their owned house. Weesep and Priemus had realized some 'lessons' from U.S. government's efforts to make the implement in order to improve the 'housing and living conditions of the nation's poor'.

As a research result they found out the 'privatizations of housing' could not settle all the problems in the development of housing process. But keep making housing policy innovation is the successfully tips for U.S. government to make reforms to improve the living status for low-income group.

The development of Public Housing in Singapore History and background

Singapore is a newly industrialized country with the famous nickname of 'garden city'. Since 1964, the Singapore government has introduced the Home ownership for the People Scheme to help the group of low-income people to rent or purchase a public house for their family. Four years later, the government allowed people used their Central Provident Fund (CPF) to be the down payment as part of their housing purchasing fee. More and more people in Singapore had own their house, since owning a house was not a difficult thing for them. Housing and development board (HDB) is the government departure formed to response implement the public housing scheme including manage the new housing planning and development process and allocation the low-rent housing to people needed. The Public Housing Scheme of Singapore is one of the most successful examples of affordable housing production in the world. More and more countries try to learn the experience from Singapore public housing scheme to solve the housing development problem in their countries.

Public Housing Policy

The truth is housing situation in Singapore that 'More than 80% of Singapore's population lived in HDB flats, with 95% of them owning their HDB flat'. This achievement based on the housing policies of Singapore are concentrated on solve housing problem for residents and formed social wild sense that 'everyone has the right of adequate housing'. Under these housing development strategies of government setting, Singapore achieved more than one time successful but make the national housing sustainable development.

The successful of Singapore Public Housing is evident from these facts:

1. Stronger government manager. Formed a profession non-profit agency HDB responsible for the Public Housing Scheme in Singapore make sure it shaped up. From 1960 to 1965, about 54430 housing built by HDB that solved the housing shortage problem in during this period effectively. The main works of HDB include public housing planning, designing, constructing, allocating, selling and renting out. After 1990s, HDB focus on upgrading public housing environment and facilities, renewal the older public housing, research on housing design to build suitable housing to fulfill people need, and so on. Singapore government made seriously ministering in housing market, limited the housing speculators enter the market to prevent price volatility, auditing the applicant to fulfill the requirement of public housing purchasing.
2. Establish two different type housing market. Singapore government used the political power to separate housing market from one to two, one is public housing market, and the other is commercial housing market. These different markets have different target groups. Public housing market has the public housing, low-rent housing, studio apartment, small size apartment and so on which are the lower housing access level for household because government made subsidy for these households and housing developers. The commercial housing market contain single house, best location house, luxuriance house and so on which suitable for the high-income group or the people who want to do housing investment.
3. Implement central provident fund policy. Singapore CPF policy launched in 1955, it was clearly states the issues. The working Singaporeans saved monthly part of 20% salary to CPF account and their employers also responsible 20% for monthly contributions to it. CPF can only use to specify purpose such as medical insurance, education and housing purchasing.

Comments on Singapore Public Housing policy

The government of Singapore have been launched the 'the home ownership program' for more than 40 years, they have the complete housing policy system to protect the living right of low-income group. 'HDB' flat is the world's most effective solution for the housing problem, many countries and areas would like to learn the experience from Singapore's housing model to solve the housing problem in their own countries.

The development of Public Housing in Hong Kong History and background

Hong Kong is located on the south of China and border the Shenzhen City over the Shenzhen River. The area of Hong Kong is 1104 square kilometer consists of 200 offshore islands with the 7.055 million populations. It is one of the highest density countries or regions in the world. Hong Kong used to be a colony region of Britain and it is this colonial experience that make it has the different political and culture process compare to other cities in China. There are different social class categories according to household's income level.

In Hong Kong, the sandwich class is considered the family's income between \$20,000 and \$40,000USD per year. There family group are not really poor however they feel need financial support from the government in the beginning years, so they can get more income and life better in the future. There are three stages in Hong Kong Public Housing development process. That process can conclude the changing as from setting the temporary place for the huge immigrants to take more comprehensive the housing policies and construction program, from only provided the rental housing to subsidize household became homeownership, and from built low level housing to construct modernization public housing. First stage start from 1950 to 1970, in this period main of the Hong Kong government functions were dealing with the large number of immigrants and set a mass of housing program for the low-income residents. In the beginning of 1950s, lots of shanty homes had been built for homeless, but a terrible fire destroyed thousands of its type house, after that, the public housing policy was launched to be the principle of

housing constructed. The housing policy aims in this stage were upgrading living environment for residents, transferring the residents from shanty homes to concrete structure high building to make more space for urban stable development.

Second stage started from 1970s, this period is the turning point of Hong Kong Public Housing development. In 1973, Hong Kong Housing Authority (HA) was established to responsible for the Home Ownership Scheme, Tenants Purchase Scheme, Sandwich Class Housing Scheme and Interim Housing. Since then, Hong Kong government introduced a series of housing policies to standardization the housing market, construction market and the subsidy funded sector.

Third stage can be considered to be the development result of second stage in the late of 1970s. The government took full implementation of the 'Home Ownership Scheme' to speed up the public housing construction schedule. As a result more rural housing had rebuilt to be urban concrete construction, living standard and environment been obviously improved and the quality of public housing are good as commercial housing because government allowed developers and investors to participate in public housing program.

The successful of Hong Kong public housing model can be point out included:

1. Legitimate formed a housing authority HA as the independence and non-profit housing agency.
2. Effective financial and governor arrangement.
3. Clear housing policies system.

Affordable housing policy: My Home Purchase Scheme

The Hong Kong Chief executive Donald Tsang had delivered his sixth annual policy address on 13 of Oct 2010. He focused on housing and announced a home purchase scheme in which the governments will subsidies middle-income earners to buy their own homes. He's target is to build 5000 units under the scheme including 1000 at this site in Tsing Yi, if demand proves to be high, the government could allocate more plots to build more flats. The chief executive also promised that units

under the new scheme would be affordable. But he emphasizes that this home purchase scheme is the no-frills, small and medium-sized flats only for these 'sandwich class' households, if they can spend 45 to 50 percent of their income on rental and also on saving, and also with the added protection of rental non-adjustment. He recommended that the new program is more flexible than home ownership scheme, as tenants would be reimbursed half of their net rental payments for up to five years to help them purchase a flat. He is confident that this new scheme will make it easier for middle-income earners to purchase their own home.

These 5000 flats will be built under my home purchase plan to help the so-called sandwich class buy their own homes. The idea is that they will rent their homes until they can save enough to buy them. First stage of this new scheme, 1000 flats will be provided by 2014, those who qualify for the scheme can rent the flat at a fixed rent for up to five years. They can choose to buy within a specified time frame the flat they rent or another flat under the plan at prevailing market price, or a different unit in the private market. To help them with the down payment, they can get a subsidy equivalent to half of the net rental they have paid during the tenancy period. The idea is to give tenants time to think whether or not to join the housing market without being troubled by the ups and downs of housing prices. On poverty relief, the government and the business sector will each put in 5 billion dollars to set up a community care fund to give extra help to the needy beyond what the comprehensive social security assistance scheme can provide. Low income earners may qualify for up to 600 dollars a month in transport subsidy.

LITERATURE REVIEW

Ali(2014) explained about affordable-accessible index of housing and analyzed the data of Maskan-e-Mehr project in Zanzan city and also they explained about difference in low cost housing and true affordable housing. purpose, the state sector has strove to reduce the average house price as much as possible through cession of land in cities and new towns surrounding metropolises. In turn, families just have to pay the housing construction.

Unfortunately, the lack of suitable services and facilities in these areas has resulted in an increase in household transportation costs. Therefore, the present research work deals with evaluating the affordability level of these houses through a new index of housing affordability, which simultaneously considers housing and transportation costs.

Deidre(2006) explained challenges and complexities are involved in managing affordable housing properties, including social programming, meeting financial goals, budgeting, complying with governmental and local housing regulations, decreasing tenant turnover and vacancy rates, and maintaining the physical building structure. Most nonprofit owners contract property management services to private management companies. This research measures how satisfied residents are with property management services at Defoors Ferry Manor, a nonprofit multifamily affordable housing community owned by Atlanta Mutual Housing Association. Of the thirteen variables, residents were least satisfied with expediency in which property management staff addressed their issues. A plausible explanation for this finding is the high turnover rate in property management staff. This research provides recommendations for successfully transitioning between property management staff.

Esruq(2014) established to encourage more families to buy their own houses. The Grow Home concept is based on the notion of affordable housing. This paper aims to explore a proposal for affordable housing measurement with six assessment components. In other words, this work intends to study factors that can affect affordable housing assessment. In this paper, we investigated the 20 criteria for affordable housing assessment given by Mulliner and Maliene in their study. Then, we rearranged these criteria into five components, and added the Grow Home component. Each component has different criteria. Finally, six affordable housing measurement components are identified, namely, income ratios, loans and accommodations, facilities and services, safety and comfort, quality management, and Grow Home. These components are also considered as main factors that directly affect affordable housing. This

study aspires to contribute to existing literature by proposing six assessment components as a measurement of affordable housing.

Structure

A literature review of 'Affordable housing' field is right after this introduction. In this part, many previous works and key findings are described, and it also refers some housing sustainable theories. The next part is a brief overview of the global affordable housing development, which includes the experiences of Europe (Sweden for instance), U.S., and Asian cities (Singapore & Hong Kong for instance). For each area, an evaluation of the local policy is also carried out. The third part is an introduction of India's current housing policy which has great influence to the India local housing market. The last part is an Preparation of Questionnaires.

Methodology

A questionnaire is used to investigate the market value of housing and the average income of household in different target group in Erode City. This observation group is the young household, they have the realistic and directly experience about India housing status. The first part of the questionnaire is about the current housing status of the household. The questions in this part are aim to get the information about the current living status of different households, including the location, living space, consumption level, the way to get relevant market information and so on. The second part is about the ideal housing status of the household. In this part, there are more details about the householders' favor living environment, affordable housing price level, the selection between commercial housing and affordable housing and so on. The next part is about rental housing, because most of the householder will choose to rent a house as temporary living place before they can afford to buy their own houses. In this part, we can know the information about the different requirements between rental house and ownership house for householders. The fourth part is about the opinions of householder to the local real estate market. The last part is about the personal information and background.

After collecting and sorting the information from the questionnaire, an analysis is carried out by three steps below:

1. According to the information that collected from the questionnaire, we can calculate how many years would an average-leveled household take to save the down-payment for a house in general situation, and how many years would be taken to finish all the payments of a house.
2. Carrying out different scenario analyses to analyze that under which circumstances that the period length of the housing payment could be shortened, and how much it could be shortened. In this step, the interest rate, down-payment rate, and other variables would be changed in different scenarios.
3. According to both the calculate results and the information from the questionnaire, an ideal and reasonable period length of the housing payment would be set up at last.

Limitations

This paper is based on current economic factors in India real estate market, by assuming that polity and environment conditions will not change during this researching period. Since many market conditions are not included in this research, the analysis result can only be used in the similar countries like India. Suppose the internal and external economy factors in real estate market can be observed and predicted. India is one of the developing country in the world, but it has many particular factors which is very hard to be found in other cities, for example, Cantonese's consumption habit, culture background, and life style. Under this difference, the concept 'house ownership achievement' is means residents completely have the house ownership right, no arrearage, and no ownership segmentation, in a word is 'full house ownership'. On the other side, the observation group is not much enough to reflect all the problems in housing market of India. This research can be suitable used for India government polities making and implement, but has confine to apply for other city government. It is very difficult to have the

ambitious that provide the perfect policies measure to solve the housing problems completely.

CONCLUSION

Housing problem is not only an economic problem but also a social problem; to set up a reasonable housing policy system is still a goal that many governments aimed at. Both western countries and eastern countries are facing the same housing problem, and the development of "affordable housing" offered a good solution to it. Through implementing various affordable housing development models in different countries, we can find out that affordable housing is not a perfect solution but it is an effective one to the housing problem.

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