P. L. RAJ MAINS Q & A – DAY 80

The Urban Housing Crisis

Introduction - The Paradox of Urbanization

Urbanization is often hailed as an engine of economic growth, but in India, it has also become a site of deep inequality. While luxury high-rises reshape skylines, millions of urban dwellers are pushed into informal settlements, burdened by long commutes and unsustainable debt. The core of this crisis is not just a lack of credit for buyers but a fundamental failure of cities to make building affordable homes economically viable. A recent report by NITI Aayog sheds light on this supply-side collapse, offering critical insights and policy prescriptions to understand the "Housing for All" challenge.

The NITI Aayog Report - Diagnosing the Crisis

The report paints a grim picture of the affordable housing segment. It highlights that affordable housing has become a "high-risk, low-return" proposition for developers.

Investment Drought - Over the past decade, this segment attracted less than 8% of residential private equity flows. Foreign funds were even scarcer, contributing just 10.2%.

Supply Collapse - Data from Knight Frank and NAREDCO reveals a structural retreat. In the top eight cities, the supply-to-demand ratio for homes below ₹50 lakh crashed to 0.36 in 2025 (from 1.05 in 2019). The share of affordable housing in new supply plummeted from over 50% in 2018 to just 17%.

The Deficit - The urban affordable housing shortage stands at 9.4 million units, with demand projected to swell to 30 million by 2030.

Nature of the Problem and Reasons

Why are developers abandoning affordable housing? The NITI Aayog identifies several structural bottlenecks -

1. **High Input Costs -** Skyrocketing land prices in urban centers make low-margin affordable projects unviable.
2. **Restrictive Planning -** Archaic planning norms and low Floor Space Index (FSI) limit the density required to make affordable housing profitable.
3. **Regulatory Delays -** Lengthy approval processes add interest costs, eroding the thin margins typical of this segment.
4. **Fiscal Withdrawal -** The expiration of tax incentives (like Section 80-IBA) removed a key cushion for developers.
5. **Weak Rental Market -** Policies treating rental housing as "commercial" (imposing higher utility tariffs) discourage the creation of rental stock for migrants.

Government Measures and Proposed Reforms

The NITI Aayog report proposes a comprehensive "reset" of the policy framework to revive the sector. Key recommendations include -

Tax Incentives

Revival of Section 80-IBA - Reintroducing the 100% tax exemption on profits for approved affordable housing projects (active 2016-2022) to restore project viability.

REITs Reform - Exempting rental income and capital gains from tax for Affordable Housing Real Estate Investment Trusts (REITs) to attract long-term institutional capital.

Financing Mechanisms

Tax-Free Bonds - Allowing the National Housing Bank (NHB) to issue tax-free bonds to fund concessionary lending for Economically Weaker Sections (EWS) and Lower Income Groups (LIG).
Dedicated Fund - Creating a long-term fund backed by NHB and HUDCO.

Regulatory Changes

Inclusionary Zoning - Mandating 10-15% of space in large residential/commercial projects for EWS/LIG housing.
Cost Reduction - Waivers on stamp duty, registration charges, and change-of-land-use fees.
Rental Reform - Treating rental housing as "residential" for utility tariffs (water/electricity) to lower operational costs.

Way Forward

Policy design is only the starting point; execution is the real challenge.

1. **State-Level Implementation -** Since land and colonization are state subjects, success depends on states adopting these reforms. Rationalizing FSI and digitizing land records are critical steps states must take.
2. **Innovative Technologies -** Adopting global best practices, such as 3D printed homes (Kenya model), can reduce construction time and cost.
3. **Public Land Utilization -** Unlocking underutilized public land held by PSUs or railways for affordable housing projects can bypass the high land cost barrier.
4. **Collaborative Models -** Exploring community engagement and financing models (like in Nepal) to empower beneficiaries.

Conclusion

The NITI Aayog report serves as a wake-up call. It acknowledges that the market alone cannot solve the affordable housing crisis due to structural market failures. By proposing a mix of fiscal incentives, regulatory easing, and innovative financing, it aims to make "affordable housing" a viable business model again. For India to manage its rapid urbanization sustainably, housing must be viewed not just as an asset class but as a fundamental infrastructure of dignity. Implementing these reforms is essential to ensure that our cities become engines of inclusion rather than exclusion.

Main Practice Question

1. "The collapse of affordable housing supply in Indian cities is a result of structural market failures rather than just a credit deficit. Critically analyze the supply-side constraints identified by the recent NITI Aayog report and evaluate the proposed fiscal and regulatory remedies." (15 marks)

Answer Guidelines

1. Introduction - Contextualize with the NITI Aayog report highlighting the sharp decline in affordable housing supply (17% share in new supply). Thesis - The crisis is supply-driven (viability) rather than just demand-driven (affordability).

2. Body

1. Analyzing Supply-Side Constraints

Economic Viability - High land costs and low margins make affordable housing "high-risk, low-return."
Regulatory Hurdles - Restrictive FSI, delays in approvals, and treating rental housing as commercial assets.
Fiscal Vacuum - Withdrawal of tax holidays (Sec 80-IBA) discouraged private developers.

2. Evaluating Remedies

Fiscal Stimulus - Reviving Sec 80-IBA and tax incentives for REITs can attract institutional capital.
Financing - NHB tax-free bonds can lower the cost of capital.
Zoning - Mandatory inclusionary zoning (10-15%) ensures supply within prime areas, countering segregation.

3. Conclusion - Conclude that while central incentives are crucial, the solution lies in cooperative federalism—states must rationalize land laws and adopt technology (3D printing) to bridge the 9.4-million-unit gap.