

## **Seminar:**

# **House Prices in India: How High, and for How Long**

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### **Nandita Chatterjee**

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### **Rishi Raj**

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### **Pritika S. Hingorani**

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### **Nandini Agnihotri**

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### **Shishir Gupta**

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Know more details: <https://csep.org/event/house-prices-in-india-how-high-and-for-how-long/>

Watch the video: <https://www.youtube.com/watch?v=KkTDmQZ40tY&t=510s>

*The following is an edited and revised transcript of the event. It has been generated by human transcribers and may contain errors. Please check the corresponding video for the original version.*

**Annie George:**

Welcome to this seminar on Housing prices. I request everyone to kindly take your seats. The seminar will start shortly. We are live on YouTube as well. I invite Dr Bhandari, president and senior fellow at CSEP to deliver the welcome address.

**Laveesh Bhandari:**

Thank you, Annie. Good evening, everyone. As she said I am Laveesh Bhandari and I am the president and senior fellow at CSEP. First of all, may I just ask everyone to switch off their mobile phones. Thank you. Thank you so much for everyone to be here today. This is indeed for me personally a very exciting area of work which is essentially the housing prices in India. How high and for how long? For me, not because of I am in the housing market, but more because this is an area that I have in the past worked on and failed miserably in getting it right. As the title suggests the idea is to understand how property prices fluctuate, how they sustain and where they are going. And to do justice to this apart from the presentation from our two of brightest researchers, we have an amazing panel which I need not introduce. But I am going to introduce in the established Indian tradition. But before I do that, I would like to talk a little bit about CSEP. We are an independent, nonpolitical, highly research oriented think tank who believes that policy needs to be informed not just by analysis of data that is around. But from an intersection of knowledge which is there amongst industry and civil society, in policy making of course, and of course in academia as well. This intersection of these domains essentially gives what we believe a much richer understanding of where policy needs to go. We have a whole range of areas, as I said we are an independent think tank, we are rapidly growing. But as of now we have teams which are working on apart from urban real estate, on energy, sustainability, environment, health, education, trade and competition, foreign policy and macroeconomics. I might have missed one or two. But broadly we cover a whole range of areas. In each of these areas it is always the policy making and research that go together. So, you have policy makers working with our researchers. And we take great pride in also actually working and reaching across and getting industry to work with us, our people who have that experience. And this is also of course, reflected in our panel today. Again, as I threatened, I will again welcome our really amazing panel. Let me first start with Dr Nandita Chatterjee, someone who I have known of but never had the chance to meet before for many years. She was previously the secretary of the housing and urban poverty alleviation. She is an IAS officer of the 1980 batch. And has served in different capacities in the state and central governments and international organization such as UNDP and WHO. Dr Chatterjee has also served in the ministries of rural development and environmental policies. Has been at the helm of many important reforms such as RERA and PMAY. At present she has been appointed as the secretary general of the United Nations as an advisor in the realm of local and regional governments. Rishi Raj, is the chief operating officer of Max estates limited. He has many years of international experience in research, analytics, consulting for corporate strategy, business strategy and business building. Previously he has worked in McKinsey and company for 17 years as a global CEO of McKinsey center of excellence and for strategy in corporate finance sectors. I welcome you. Pritika Hingorani is the chief executive officer at Artha India, where she leads the work on urbanization and emerging cities. Previously she spent several years at the IDFC policy group, where she worked on research spanning affordable housing, water, sanitation, rural development. She has a masters in city planning from Massachusetts institute of technology... because there are a few other MITs as well these days... she has studied

economics and political science for her bachelors and specialized in developing economics from SOAS London. Welcome. And finally, professor Om Mathur. Who again does not need any introduction. But I am going to give you anyway. Most important is that, perhaps even you don't know sir, you have been an inspiration for me as well. So, he has been India's best known expert in the field of urban economics and planning for some time. Previously he was the director and subsequently the distinguished professor at the NIUA. He has served as a senior fellow and chaired urban studies at the institute of social sciences and was the IDFC chair professor at the National institute of public finance and policy. He has been involved in policy making with the government and international organizations in several capacities such as the member of the national review committee on Jawaharlal Nehru national urban renewal mission. At present he is the visiting senior fellow at CSEP and senior fellow at the global city institute, university of Toronto. Welcome sir. I could go on. You know. We have two bright young scholars amongst us who will kick off the proceedings with a short presentation on the issue of India house prices. The work emanates from CSEP's working paper they have co-authored with Shishir Gupta. Nandhini Agnihotri, who has a bachelor's degree in economics from LSR, Delhi university. Her primary research focus lies with urban economics, her previous research has explored the impact of mandatory disclosures on reducing information disparities in the Indian housing market. That sounds tough. She has also studied factors influencing the reporting behavior of English language media in the context of land and property conflicts. Anne George has joined us after completing her bachelor's degree in economics from St. Stevens, Delhi. She has also served as a research fellow at Gautham Krishna research institute, a fellowship program at St. Stevens department of economics, where she focused on measuring unpaid work done by women in the state of Kerala. Shishir Gupta is a senior fellow and the chief operating officer at CSEP. So, he holds a great power. So, we are all very, very careful of being nice to him. So, I will therefore not crack any joke on him. But his work focuses on many aspects of Indian economy, ranging from economic growth, governance and institutions. I do suspect that Shishir is in the real estate market which may have fired this. Prior to joining CSEP in August 20, Shishir was with McKinsey global institute for 14 years. He is an economist by education with an MA and MPhil from the Delhi school of economics. Thank you. So, over to you.

### **Shishir Gupta:**

Thanks, Laveesh. Thanks everyone who have joined today both in person and online. The plan for the day is as follows. I have prepared a few questions to kick off. First as Laveesh said we will have a short presentation by the two coauthors of the report around 15 to 20 minutes. Post that I will kick off the conversations with our panelists for around 20-25 minutes. And then we will open it up for questions from the floor both in person and online. Then I hand it over to Prof Mathur for his closing remarks. We are on time. We aim to close by 5:30. Thanks again and looking forward to it. May I request Nandhini to please start.

### **Nandini Agnihotri:**

Hello everyone. Thank you for joining us both in person and online. Access to decent housing is a prerequisite for a good quality of life. However, it remains unattainable for a significant portion of the population as is evident from the fact that 17% of all urban households live in slums. The price to income ratio in India which is a measure of housing affordability is at a high of 11 compared with 5, which is the affordability bench mark in India. Now given the pervasiveness of this problem, the government has launched many reforms and schemes to

address the issue. For instance, there have been many subsidies driven schemes such as the Pradhan Mantri Awas Yojana. And the Indira Awas Yojana. And also, other reforms such as RERA and the digitization of land records and so on that impact the structural issues present in this sector. Now, given the scope of this issue and subsequent resources devoted to it, in this paper we ask a fundamental question. Which is 'how expensive really is housing in India and why'. As per the Parekh committee of 2008, for the middle income group of households in India the housing is affordable at a price to income ratio of 4 to 5. Therefore, at a PTI of nearly a 11 or 11.3, housing in India is truly expensive. However, contrary to popular belief it is not outrageously expensive. Because as you can see here there is a lot of countries in the developing world that fell far worse than India. For instance, Bangladesh at nearly 12, Brazil at nearly 17 and so on. While of course, there are a lot of countries in the developed world that also have more affordable housing than India, for instance, the US, the UK and so on. So, we find that a key reason for high house prices in India is the semi transparent nature of the real estate industry. So, we used JLLs real estate transparency index which you can see plotted here on the Y axis. The higher the index the lower the transparency in the sector. So, we use this measure and we find that housing affordability which you can see on the X axis here, moves with transparency in the sector. That is to say that as transparency increases, housing becomes more affordable and vice versa. So, the PTI for the highly transparent group of countries here is 8 while the PTI for low transparency countries is 14. And India is currently in the semi transparent group. And it fares the worst in the regulatory and compliance sub pillar which includes components such as land use planning, the digitization of land records and registry, etc. So, there are three main structural reasons and symptoms of this semitransparent nature of the industry that leads to high house prices. The first one is the lack of rigorous and credible land use planning and implementation. Land use planning in India is not granular and is often top down in nature as is evident from the floor space index policies in India which controls building heights. So, in the second chart, you see the FSI map of Mumbai, from a few years back. In the first chart is the same for Manhattan. So, you can see that in Mumbai, as was the case of many other cities in India, large areas of land and often the entire city is assigned the same planning norm. instead of a more nuanced, phased and location specific approach. Where as in Manhattan you can see that it caters much more to location specific requirements and it is much more granular. So, this lack of granularity actually leads to actual land use to what actually happens in the city to deviate from planned land use, which leads to chaotic urbanization. This problem is compounded by the fact that only 28% of all census in statutory towns in India have a sanctioned master plan in the first place. The lack of credible land use implementation becomes very evident when we compare some Indian cities with Singapore. So, for instance, you can see here, taking the example of train lines, we can see the plans for train lines in Singapore come with the detailed implementation timeline with annual updates. In Gurgaon for example, proposals for train lines or metro lines etc. do not come with such a timeline, updates are often infrequent. As you can see from these newspaper headlines from Gurgaon, there are many seemingly sudden changes in planned routes that lead to a lot of uncertainties as to what will actually happen in the city and by when. With multiple bodies working parallelly leads to delays in projects among many other issues that cause overall confusion. Inefficiency in land use planning and implementation leads to constrained and unpredictable supply of land which in turn leads to a less than competitive industry structure. So, the average profitability in real estate over the years has not been abnormal. But as you can see from the first chart here, there are a number of big players in real estate that have over the years made a medium profitability of

over 20%. This dispersion is much higher than what is observed for other sectors such as IT, FMCG, textile etc. As is shown in the second chart house price growth and profitability in the sector actually move together. Therefore, the ability of some developers to make high profits can be attributed to their ability to command a premium on their product which is housing. And this premium among other things often is because of their access to good parcels of land with infrastructural connectivity, a resource that itself is very scarce particularly because of faults in land use planning. The third factor that leads to high housing prices is the presence of a shadow economy or unaccounted income. So, there is not a lot of avenues for one to park unaccounted income in India. However, real estate provides a safe haven for this due to its opacity and its ability to accommodate large sums of money. The share of shadow economy and the PTI move together with the correlation of 0.57 as you can see in the first chart here. That is to say that as the share of unaccounted income increases housing becomes increasingly unaffordable and vice versa. Therefore, its also no coincidence that real estate is a very popular asset for investment and for storing wealth in India. You can see from the second chart that 77% of all household wealth in India is stored in real estate compared to 62% for China and even lower for many other countries we compare them to. Thus, housing is expensive in India due to a multitude of structural reasons. But contrary to popular conception, returns on housing or the growth in house prices has not been inordinately high across the past few decades. So, if we look at the returns from real estate over the past three decades which is the first graph here, at 9.3% it falls very much in line with returns from other assets like gold at 9.2 and Sensex at 13.5. This in turn is very similar to the pattern we observe in many other countries as you can see from the second chart where total returns on equity for example are more than the total returns on housing by an average of 2%, which holds true for India as well. Thus, housing is expensive in India, that is true. However, it is not in a bubble because the price growth over the year has not been super normal.

### **Annie George:**

We wanted to understand the pattern of house price growth over the years and also understand what are the drivers behind it. In this slide we see that house price growth has moved in cycles in the past 30 years. Each cycle has roughly spanned 10 years and biggest cycle in terms of price appreciation was the second cycle where prices recorded 30% annual growth at its peak in 2007. Another observation here is that over the past 30 years absolute prices have mostly risen only in a few years when growth was negative did prices naturally declined. So, what drives these cyclical movements? We find that an important determinant of price growth is income growth or GDP growth, both move together with a correlation of 0.47. Owning a house in India is often aspirational in India because when incomes increase people often increase their demand for housing causing prices to increase. Also owning a house also becomes a necessity because there is no formal rental market in India. We capture the drivers of property price growth in this regression model. In addition to income growth, we find that cost of construction and price expectations are significant factors that drive price growth. Materials such as cement, steel, glass have a bearing on developers profit margins. So, when these costs escalate developers usually pass it down to customers or supply is curtailed to maintain these margins. Since housing is one of the biggest investments that a household makes in its lifetime, expectations of price growth affect household's decision to buy housing today. Similarly, price expectations or expectations of future price growth affect developer's future profitability, so, they also apply this into their supply decisions. Thus, these expectations in turn influence actual

price growth. The model confirms that price growth moves in line with economic fundamentals and also influenced by expectations. Our paper finds that house prices are expensive due to structural reasons and not because prices have increased at runaway rates. We recommend improving the fundamental structure of the sector. Planning processes need to be improved by bringing in more credibility and clarity in land use plans. Transparency as you saw, has a bearing on housing affordability. Thus, reforms like RERA and digitization of land records needs to be strengthened and fast-tracked. Finally, to measure the effectiveness of these reforms, key metrics like price to income across cities, transparency, industry competitiveness, needs to be institutionalized and tracked. Thank you. This concludes the presentation. Over to you Shishir.

**Shishir Gupta:**

Thank you Nandini and Annie, for a sharp presentation. Very much on time. So, what I intend to do now is to pose a few questions to our panelists to kick off the discussion. I will pose it to each panelist, but others can pitch in with a brief comment or observation in case they have. So, let me start with you, Pritika and Rishi. Do you agree with the central thesis of the paper that it is lack of credible land use planning and implementation, that is one of the key reasons why the market in real estate industry is not competitive enough? And hence houses are expensive in India. And what are some of the three or four things that the government or industry can do to change the equilibrium to a more affordable house price equilibrium? Whoever wants to go first between the two of you.

**Rishi Raj:**

Thank you Shishir. Great to be here. I totally agree. I think the findings and the recommendations of the research paper is spot on and I can say that with the on the ground experience that we as a real estate development company, Max estates, which is new in the game, we came into real estate only in 2016-17. Let me make that point by giving you couple of on the ground data which will make it even loud and clear. So, there are two issues. One issue is lack of supply, second issue is inconsistent supply. If I start with lack of supply and if I take Gurgaon Manesar example and if you study the master plan, the last three master plans 21, 25 and 31. And if you look at residential, for group housing, what was the master plan land. And if you do it relative to population of Gurgaon, that per capita has come down from 50 square mt per capita to 29 sq mt per capita. That is number one. Number two, in Delhi NCR which is where we play, our home market, if I look at Noida which is again an emerging city in Delhi NCR and attracting huge amounts of investments. I looked at an audit report which was done for a period of 2005 to 18. In Noida unlike Gurgaon, it is the Noida authority which allots the land. And in this time frame, if I look at group housing and if I look at... there were 24 schemes, 66 allotments, they came up with 71 lakhs square meter of land allotment. But the interesting part of that fact was, almost 100% of allotment was concentrated between 2005 to 11. And almost nil between 11 to 18. And now if you apply some rule of thumbs and translate this land with average \_\_, average housing size, this would yield 1.5 lakh approximately give or take, 1.5 lakh units, when in that duration the population of Noida increased from 3 lakh to 9 lakhs. Finally, I will give you one more very interesting fact. We also looked at and this is about inconsistency, we also looked at Gurgaon, in Gurgaon you can acquire an agricultural land, but you have to go through the licensing process through DTCP and so on. And when we looked at 2000 to 2023 data, across 1140 odd licenses and the data would suggest in terms of

area 12800 acres of land got licensed or has got the valid license. But the interesting part was, 2000 and 2007 it was 15%. A bulk was in 2008 to 14 - 63%. And then 15 to 23 only 20-22%. So, if you just look at Delhi NCR where we play, I think these data points make it loud and clear that there is a lack of supply and it has been inconsistent supply. And of course, the only other point I would add and then I will request to come back and we can talk about the reforms is, yes there are master plans like your research says, only 28% of the towns in India have got master plans. Delhi NCR has got master plan. But what I think needs to be done is to make the planning commensurate with the population in terms of FSI allocation, which by the way has started happening through the TOD and TDR policies. But more importantly it has to be implemented well with respect to commensurate infrastructure coming online before the development happens and all of us know that story. So, I'll just pause there.

**Pritika Hingorani:**

Thank you, Rishi, and Shishir and Annie. Thanks for an excellent report. Completely agree with it. I am somewhat biased because I come in with from a planning perspective. And two of the things that the report focuses on which is land use and transport. I think are two of the biggest supply side constraints. So, first I think one of the most refreshing things to see was this focus on the supply side. So, I think for too many years what we have done is we've said housing is really expensive, how do we subsidize something that is expensive without asking the question of why it is expensive in the first place. So, taking the supply side approach that says what does it actually take to build housing. And how do we improve steps along the way to make it cheaper is a very interesting approach. So, I will add two quick things to what Rishi said. One is certainly bringing more land under housing is important. Even the land that is available for housing... and I'll touch on this in more detail later... is constrained by additional regulation. So, even if you have a plot of land, what part of land you can actually build on, how high you can build, that imposes even additional costs on building housing. The second is transport. You touched on this in the presentation. Ultimately housing is about location. So, a lot of the reason you see slums in the areas you see slums in is because that is the optimal location. I always say think of housing as our foothold in a city and our ability to access opportunities. Especially if you are a new migrant to the city, all that matters is location. So, if you think of transport as a way to help people get around the city and to make more locations accessible to one another, then transparency in what transport infrastructure is coming, when its coming, just opens up the market. I'll stop there.

**Shishir Gupta:**

Thanks a lot. Glad to note that we are not completely off the mark. Because Laveesh and I have this constant fight going on that I should stick to a topic. He wants me to specialize and I keep shifting topics. So, we are right on this one. Thank you for validating that.

**Laveesh Bhandari:**

The seminar is not over.

**Shishir Gupta:**

Fair enough. Rishi, I just wanted to ask you this and this is something that I mean we couldn't touch in the paper. Seemingly the Gurgaon versus Noida planning and allotment of land is different. Any observations. There are may be good things in both. Anything you want to touch



upon which again could be part of a reform agenda that someone who may be listening or we talk to can consider?

**Rishi Raj:**

I will give you one practical insight on the ground. Because we keep on searching for land which can be developed in the right location. The Noida's approach is they buy all the land. Master plan it and then allot it. Versus in Gurgaon, you aggregate the land as private land owners or developer and then you apply for licenses. Long and short of it is if you go to Noida the land that you get is well planned, in right shape and size which means the development is much easier. In Gurgaon you have all kinds of shapes which makes it difficult. I think it again comes back to not just better master planning in terms of zoning residential, commercial, industrial. But also, how the land gets carved out for licenses on which developments will happen. I think Noida has had its own challenges wherein, they had this policy of allotting the land at 10% and then paying in instalment, I think all of us are aware that that has backfired and created lot of issues with what we see as stuck projects now. But thankfully now, through the center and state intervention lot of actions are being taken to get rid of those legacy and stuck projects.

**Shishir Gupta:**

Thank you. That actually... because this is something that I wanted to understand but we ran out of time. So, this is very helpful. Pritika, anything that you want to add from your city or neighborhood that compares land use planning before I move on to Dr Chatterjee?

**Pritika Hingorani:**

I think it's a question of land assembly and neat parcels of land is a really important one. So, we are going to add... I mean, our existing cities are going to expand we all know this. India is urbanizing and will be urbanizing for the next 20 years. So, the question of how we bring new peri urban land on to the market is a very important part. So, in 2014 we had set up... we were IDFC institute... we had set up one of the first geospatial app in India. And all we were doing was looking at the quality of peri urban growth. And it's interesting because I think we looked at 17 cities in India and 200 cities globally. What you see for most Indian cities is that growth is very haphazard. And so assembling land on the periphery becomes difficult. I know... but most cities in Gujarat actually... they have been doing this for 30 years now and they will always admit they took the town planning scheme from Bombay presidency back in the day. So, this is an old practice. But the practice of the state essentially assembling land marking out roads, marking out space for public infrastructure, not necessarily building anything, but the process of bringing land on to the market in an orderly fashion is very important for keeping housing affordable in the long run.

**Shishir Gupta:**

Thank you. Dr Chatterjee, if I may turn to you, to be honest if I was looking at the paper as a reader, I would have said... all of us know this... all of us know housing is expensive and that there are challenges in regulations, planning etc. So, what is new in this. That would be my critical assessment as a reader. I am sure the ministry which you headed at some point is also aware. So, I want to understand from you, I think it's a blended question. One is, why is it so difficult for us to make meaningful reforms? And second is what Pritika said, that our housing

schemes are largely subsidy driven which involve depending on the scale of the scheme lakhs of crores right? As opposed to if you take the reform route, it is in a way costless because it lets markets function much better. So, if you could shed light on that. Thank you.

**Nandita Chatterjee:**

First of all, evening and thank you for having me here. See, at the outset I will qualify the proposition that government efforts toward affordable housing have largely been based on subsidies. We will have to go back to the JNNURM of 2005 which had highlighted... I see prof Mathur smiling... the government's conscious efforts at introducing reforms in the urban sector. In fact, the focus was on city development. This was followed by the Rajiv Gandhi Awas Yojana which had a very significant component of slum free city plan of action. And even the Pradhan Mantri Awas yojana which is the present mission under operation, it starts with the concept of the city-wise housing plan of action. So, if you look historically, the government's emphasis has always been on urban planning. But to make affordable housing a reality, it is vital to have an adequate supply of land. Now, to do this you must have suitable spatial and settlement plans. Criticality of land being what it is, this poses a challenge to urban planning. So, very quickly if I can, if I'm permitted. I will just enumerate the few challenges that an urban planner would face if he or she was expected to lay out a roadmap for affordable housing. The first aspect that I would like to highlight on is the legal framework. Now we have the land acquisition act of 1894. What happened, it constrains land supply on account of protracted litigations leading to extremely costly compensations which are over the market value. So, this was replaced in 2013 by the right to fair compensation and transparency, rehabilitation and resettlement act. It could be a very good idea to have a research study on the efficacy of this in making land available for public purpose and at what cost. But then we had the regional and town planning and development law of 1985. We also had the municipal law for municipalities of 2003. Now these required a lot of amendments in the light of the 74<sup>th</sup> constitutional amendment, in the light of the 1996 urban development planning and formulation implementation. And the JNNURM of 2005. If you can recall, those of you who were associated with urban matters or urban planning in the early 2000s. the JNNURM mandated the formation of the metropolitan planning committees and the district planning committees. But the lack of professional backup or maybe the fact that as on 2014 only 2032 towns in master plans was a constraint. Another issue, JNNURM had mandated the repeal of ULCRA urban land ceiling restoration act, you would remember, this was freezing up a whole lot of land in core areas because of litigations. Now when the mandate happened, we find that all states did not repeal ULCRA. At the outset we have to remember that land is a state subject. And so, its management. There was another issue. What did ULCRA envisage? ULCRA envisaged that the parastatals will be able to assemble and develop the land for public purpose. But given their financial and managerial limitations there was a lot which had to be completed. Another legal aspect which stood in the way was the rent control act. Now under the rent control act, what happened is the moment the building got under rent control, you could neither renovate it nor you could redevelop it. So, in core areas a whole lot of land and buildings were getting frozen and even in spite of the mandate, 20 of the states continue with their rent control legislations in various forms. So, all these legal issues are actually holding back release of land supply to the extent that the urban planner would have desired. We also have regulations on conversion of land. If these also slow down the conversion from agriculture to commercial, industrial, housing. Second issue which I think a second hurdle I would say, that I think Rishi and Pritika had also

outlined is in the concept of master plans and building regulations which have never accepted the real estate demand per se upfront. As both of you have been mentioning, the limitations on the FSI, the limitations on the number of floors, having a uniform FSI in central business districts, all these would lead to a perpetuated land inefficiency. So, what is perhaps required is that you review FSI over time and this allows the households to consume more space as their income grows. You also have the urban and regional development plans formulation and implementation guidelines of 2015, they have made detailed recommendations on how you integrate urban and regional development with spatial plans and settlement planning. And this is to be done in the backdrop of the national land utilization policy of 2013. I mention all these policies statement here because I think at the inaugural address there was a special focus on policies. You have a good policy, a farsighted plan of action and the implementation is much better. Two three other issues high stamp duties. This would inevitably lead to non-disclosure, reluctance to land transactions, undervaluation, tax evasion. People are not encouraged to get into transactions. Very low property taxes. Now these are based on actual market rentals and not on land values. So, this means even if you have a vacant or an unused land they don't get released. Another issue, I think this was raised very much by Rishi, this was you look at the infrastructure. Now the parastatal of the state government they provide the arterial infrastructure. But when you look at the secondary or the tertiary this would mostly be borne by either the individual or the developer. So, the planning actually takes place in a very shortsighted way along the infra, resulting in a riven and **corridor** development. Another issue would be the kind of land titles you have. Lease hold, I think you mentioned it. As in the Noida or greater Noida, it is mostly lease hold. But in Gurgaon it **pool** land. So, it's mostly freehold. So, this is another issue. But we have to remember the fact that freehold land is more amenable to housing finance. So, a realistic view of assessment or review of land titles I think is called for. Another thing which is very much brought in your report and I must congratulate you for an excellent work done is which you have referred to a shadow economy. Speculation leading to effervescent markets for land and property, there is inflated expectations, loans are sanctioned on the basis of that and then when not realized the bubble bursts, financial collapse. Another thing which I think you all both of you must be facing is in the supply bottleneck and service land. What's happening is agriculture land and green land is getting converted into housing sites and along with transport corridors. So, three things are happening. One is there is an environmental disaster. Second is the poor are getting driven out into the squatter settlements and the third is the middle class has to move into unauthorized colonies. Because they can't afford that any more. So, what I would like to say... I am sorry I'm taking a little time... that the importance of urban planning as you all have perfectly realized and that's a very important conclusion that you all have arrived at, in facilitating affordability of housing cannot but be underscored. What do we need? There is a need to significant increase in land supply for affordable housing. More intensive use of land in the core areas. Resource mobilization from urban land, leveraging land for the purpose of generating resources, more availability of service land and try to protect the interest of the urban \_\_\_ by granting them some property rights. I think these would be the primary challenges. But this could also be some of the solution for the urban planner.

### **Shishir Gupta:**

Thank you for giving a comprehensive answer. But let me push back a little if I may, because we all know land is a state subject. But I think DDA reports to the central ministry, right? And

DDA's record in land use planning and implementation is I don't think is better than the state's one. So, we keep hearing that land is a state subject. But one example where the development agency reports to the central ministry. Also doesn't do a better job to set an example.

**Nandita Chatterjee:**

No. my reference was not in the sense of the agency which is responsible for urban planning. My reference was in the context of the legal framework and which authority was it who was responsible to carry out the legal reforms. Because the legal reforms would inevitably be associated with ultimately making land available towards affordable housing or housing per se. that was the reference I was making.

**Audience (Om Prakash Mathur):**

Land is not the subject of \_\_ and land is a subject of central government. DDA is a central body and not a state government body. Delhi is a union territory. Let's realize it for a union territory and is a central subject as far as Delhi is concerned. So, Delhi is a different case all together. If you come to other cases in other states similar situation, that would be a good example to discuss. But not a...

**Shishir Gupta:**

Fair.

**Rishi Raj:**

If I may... even an additional insight to this topic, we are talking about lack of supply and inconsistent supply and ineffective planning, right? Now, whatever it is there is a supply of land. If you look at the recent data on housing demand and supply, the proportion of sale today which is allocated to affordable segment which is below 45 lakhs in the seven major cities, which is what the data is capturing. That proportion over last few years have significantly dropped from 40% plus to below 20%. Now we as a player focus on premium residential and commercial, but even players like us cannot ignore this fact. Now the question that people are asking is why even developers who are focusing on affordable housing are moving towards premium and luxury. So, this is a bit of a vicious cycle which is playing out, which is if you look at the developers in an affordable segment, their margin, there isn't any margin left. The land prices have shot up. I'll give you a real example again for...

**Shishir Gupta:**

May I. you are answering the question I was going to ask. Let me ask the question so that you can... you are one of the latest entrants into the industry. We know that its not a transparent industry. What prompted the group to enter real estate to begin with. And how do you see yourself making profits?

**Rishi Raj:**

So, I will come back and complete that thread. Coming back to this question on Max group, has been in the business of insurance and health care for a large part. We chose to enter real estate in 2016-17 for three reasons very quickly. We consistently followed... Shishir you will relate to this... the principle of natural ownership. And when we chose to enter real estate, we could clearly see natural ownership link with respect to geography which is Delhi NCR which has

been our home turf. And Delhi has been facing significant issues with developers and players. Number two, whatever business we have been like hospital, real estate has been a key ingredient. So, the passion and the expertise for real estate always existed. And number three, Delhi NCR particularly the biggest thing which was lacking was the trust deficit. We have been in the business of healthcare and insurance where trust is paramount. So, that led us. But I think there is a big market opportunity when we looked at Delhi NCR, just to give you another fact, in 2011-12, at least on paper, credible names there were 125 developers in Delhi NCR. In 2017-18 that number came down to and this comes back to your competitive question to 30. Today it's less than 5. If you really look at who is accounting for sales and launches in Delhi NCR. And number three, I think we keep on talking about location as a key success factor in real estate. Yes, it is. But it is not all that is important. What is now important is product quality and most important now where we saw the gap was the experience which was being provided to end consumers. So, the entire focus on experience, consumer's wellbeing, right from design to operations, we saw pathetic quality which existed in the market. End users didn't realize what they can expect from office development. If you talk about in Delhi NCR and if you ask people to talk about top office buildings people will say handful. So, those were the reasons for us to enter. To your profitability question, see the way we look at real estate is, whenever we evaluate and it's becoming tougher and tougher... whenever we evaluate any investment, green field investment opportunities in residential, across the lifecycle one would like to look at 25% cash margins. But this is across the lifecycle which is 4-6-8 years which translates into a pre-tax IRR of 20 to 25% for a greenfield opportunity which is fraught with risk you would expect at least that. That is pre-tax. In commercial one would look for yield to cost because we don't sell commercial, we do only build to lease. 13 to 15% yield to cost. Which again translates into 20% plus kind of pre-tax IRR. So, that's what you look at. But in residential simple math has been land cost  $1/3^{\text{rd}}$ , construction cost  $1/3^{\text{rd}}$  and you end up making  $1/3^{\text{rd}}$  of profit. That is getting challenged today because land cost has gone up, construction costs have gone up and that  $1/3^{\text{rd}}$  is becoming compressed because of many of these reasons.

**Shishir Gupta:**

I don't want to delay, but this is very interesting. Do you see any other industry which has this  $1/3^{\text{rd}}$  as the legitimate profit margin for an industry?

**Rishi Raj:**

This is not the traditional accounting profit margin. I think this is a very project based industry. So, you should look at the internal rate of returns kind of a metric. And a pre-tax internal rate of return of 20% plus post tax in \_\_, where your cost of capital will be at least 15%, I think it's a... your research is spot on. I think it's a myth that average is not a super normal profit, it's a normal decent profit.

**Shishir Gupta:**

We won't push... and you don't... you guys started off without owning parcels of land. Because there are groups which started off because they happen to own parcels of land and that...

**Rishi Raj:**

We didn't start with a huge amount of land bank. Land for us is a raw material and hence this topic is so important because we have to be on the consistent look out for new land parcels as a raw material to grow.

**Shishir Gupta:**

Pritika, we talked about and Dr Chatterjee talked about the need for constitutional reforms. Do you think that if you were to look into the 74<sup>th</sup> constitutional amendment, implementation of that would help make improve land use planning and hence make markets little bit more competitive?

**Pritika Hingorani:**

Thanks, Shishir, I want to split this into two parts. The first is what needs to be done and then who needs to do it. I mean, there is no question that ULBs are closer to the ground, have... Nandhini showed that map of New York city... so more granular decisions are always better made close to the ground. But if we look at what needs to be done and Dr Chatterjee laid out an excellent set of essentially supply side constraints that need to be freed up. That two in particular that I want to sort of zoom in on. One is we have been talking a lot about land supply. But at the local level... now I am sort of talking across India... globally if you look at any well-functioning city, you look at Hong Kong, you look at London, so an older city, a city that has redeveloped, about 40% of land is in streets and in public open spaces. And 60% of land is the land under buildings. Whether they are commercial or residential, it doesn't matter. So, that's the balance that you have. In India and again I am generalizing across cities, it looks different in different cities. You've got maybe 20% of land in streets and open spaces. You've got another 20 to 25% of land under buildings and a lot of the rest of the land is mandated setbacks or other land that you can't use. So, think about it when you've got this really expensive asset, but you are only using a fraction of it, a fraction for mobility, a fraction to build on, no wonder we have expensive... whether it is commercial or residential... no wonder we have congestion problems. Which is also why the minute we talk about densification and tall buildings, everybody gets worried because they say – well how will our roads support it. Whereas if you actually had 40% of land in roads, that would be less of an issue. The second is transport. I talked earlier about... I know location is definitely not the only thing, it's also quality of construction. But location is being important. So, if these are two of the things that have to be done at the city level, then the question of who does it. It may be the ULB is the best place to do it. But I think it's a city by city decision. Because in some cities the metropolitan transit authority may be best place to do the transport piece of it. There may be stronger agencies. So, I would separate the two. Certainly. So, if you look at London for instance, land use and transport planning happens at the metropolitan level. Granular decisions on FSI for instance, happens at the local level. So, I think every city has to come to its own institutional arrangement. Closer to the ground is always better. But large decisions like transport and land use planning need to be made at a regional and metropolitan level at least.

**Shishir Gupta:**

Thank you. I do want to talk about the elephant in the room that we tried to talk about it, which is the shadow economy. This is to you Rishi. What as a developer, what role does the shadow economy play in your business?

**Rishi Raj:**

Ok. Let me illustrate that... lets be more... or I would like to be more optimistic and I will illustrate that with the help of a real life example. We launched our first residential project in Noida, in sector 128 on Noida greater Noida expressway. And being a premium luxury developer, we launched this product at unit price of 8 to 10 crores. 18000 rupees per sq. ft which Noida as a market had never seen.

**Shishir Gupta:**

When was this?

**Rishi Raj:**

This was last July. It was always a worry that if you come with such a premium project, you will not be able to get all your booking value in cheque you will need to. As a policy there is a zero cash policy. So, there is no cash business that we do. But you would be surprised to know that not even a single buyer, not even a single buyer even asked us, that can you take a part of value in cash. Now, a lot of that could be because they knew we as a brand do not do that. But not even a single buyer discussed that. Which also means that lot of policy reforms which has happened is helping and people genuinely would like to do more of cheque transactions. I am not saying everything is solved and taken care of. I'll give you another example. Developers were very hesitant to do societies in Delhi. Because they said Delhi is a lot of business people and if you don't accept cash, you will not be able to sell residential units. But now look at Delhi. A lot of corporate developers are now in Delhi doing this residential housing. And we are also evaluating opportunities in Delhi. I think lot of people ask us how do you deal with... there is an elephant in the room, that when you deal with government authorities for approvals, you will need to all kinds of stuff. But I will give you another example. Credit to UP government and Noida authority, now I think there is lot of perception. But the things have improved significantly. That's good. We bought our first land just before covid in February 2020. Covid came in and you won't believe, from the purchase of the land to start of the construction, in 6 months we got all the approvals in that prime covid period. So, I don't think all is that bad or negative. I think things are genuinely improving. If you have the intent to... I think it is easy to take short cuts. But if you have the intent, I think there is a space for players like us.

**Shishir Gupta:**

Who would be your typical buyer? Is it the first time buyer or the second or the third time buyer? The reason I am asking this is because as we showed, as a country, if you look at the right hand panel, India 77% household wealth is in real estate. And real estate does not give super normal returns. So, I am just curious. Who would be your typical buyer and any thoughts on this?

**Rishi Raj:**

On the commercial side is built to lease. And given that we typically come at premium because of the quality and experience. These are multinationals as well as leading domestic players and we don't face any such issues there. On the residential side we have just done one residential project. We will be soon launching in Gurgaon in July. But given the price bracket, most of

them are either who are looking for upgrade. So, they are not first time buyers. They are the ones who are looking to, as your colleagues also mentioned, to upgrade their lifestyle to move from you could say the less spacious houses to more spacious houses. To societies which provide better amenities, better services, and also lot of business people who have been living in so-called Koties or stand-alone apartments, lot of them are now migrating towards... the second generation, the third generation they are looking to stay in residential communities and society. So, they are migrating from there. Because here you have a hassle free life, of course. If you choose to come to Max estates...

**Shishir Gupta:**

That is a good sales pitch. Pritika, Dr Chatterjee, anything on this shadow economy part from your experiences. Or prof Mathur, anything before we move on.

**Audience (Om Prakash Mathur):**

It comes as a surprise to us what you are saying. Somehow, we have grown with the presence of a large economy particularly in the houses. So, what you are telling us is very, very...

**Rishi Raj:**

I am minority maybe.

**Audience (Om Prakash Mathur):**

You are saying that this is an isolated case, your case or would you argue that no, this is now becoming quite common. I think what I have not seen any report which says that size of shadow economy has shrunk. We have not seen any authentic report.

**Rishi Raj:**

I am not at all commenting on magnitude of shadow economy in India. I think my example is not to say there is a significant reduction in shadow economy. My example is just to illustrate that against a perception of where I had anticipated lot of people would demand to buy such high ticket items in cash, I am seeing at least there is a positive trend that I am seeing. Now whether that trend has made a significant dent to the shadow economy yet, I am not commenting on that. But we are seeing a positive trend.

**Nandita Chatterjee:**

I will add just one particular clause to it. Now shadow economy largely it develops because of information asymmetry. So, if we could create land or property information system at the ward level and if we could integrate it with automated cadastral survey at an appropriate scale and we have enough dissemination of information both among the buyers who make an informed choice and the developers who can then become new entrants armed with the new information, some of the speculative nature could be moderated. And the intensity of the shadow economy could be diluted to an extent. This is what my take would be.

**Audience (Om Prakash Mathur):**

Since you referred to the JNNURM, there were at least two reforms items which were dealing with shadow economy. Reduction of stamp duty which used to be in those years anywhere between 8% to 14%. Our recommendation was that it should be brought down to 3% to 5%. I



am sure you remember that one. The moment the NURM phase was over, the state government reverted to 6%, 7% and 8% and if my information is right, it has gone up to 9% in many states. Now, 9% of stamp duty, some of the states would seem to suggest that there must be some way in which this money is being recovered by those who are paying out this. That would tend to suggest. I don't have facts here, but that is what \_ . All our attempts to reduce it have failed. Mainly because it is the third most important source of revenue for the states. It is the third most important source of revenue and the easiest thing is to raise either the circle rates or stamp duty rates. That is what the DDA authority is doing right now. They are raising it without...

**Rishi Raj:**

I would like to touch on both the points on that. Again, the practical experience... I think the point on information asymmetry is spot on madam. And again, today when we go out to acquire a land, guess, it can take as long as 6 to 9 to 12 months to consume a deal and close the transaction. And a lot of time is spent in diligence. Particularly the title, the litigations, the encumbrances... so, if you ask me what is one biggest reform, that I think has started, which needs to happen... is the digitization of land records across. I think that is the biggest that we will need to do. Sir, to your point on circle rate and that's another big challenge that circle rate and the market rate across Delhi NCR is completely disconnected. I will give you one example. When we were buying a land in Noida, the circle rate of that particular sector is 1,69,000 rupees per square meter. And when we in house did the analysis of the business case of what can you afford, which is all bagged on rental economics and cost of construction, we said we can at best afford 100,000 or 110,000 rupees per square meter. But the issue with that disconnect is A) of course, the stamp duty goes up and B) if you end up transacting significantly below circle rate there is an income tax implication. And same issue we see in Delhi. I think this entire reform in... you are right, the circle rate only moves one way. I think hardly you would see somebody making an effort to say, let me synchronize circle rate with market rate. In some cases, circle rate may go up. But in many cases circle rate should come down to synchronize with the market rates.

**Shishir Gupta:**

Thank you. I have been the most indisciplined one in terms of time management. So, I have one or two questions. But I will hold off. And open it up for questions from the audience. George. And then Deepak. Please introduce yourself and then ask a brief question. Or make a brief comment.

**Audience (George Skaria):**

I am George Skaria a journalist and a proud former CSEPIan. I have two observations. One is from an anecdotal perspective, middle class people, youngsters in particular seem to be buying more than one house. Two or three houses. So, is that contributing to the rise in prices. Second is that we have a large number of failed projects in NCR in particular. Are there any policies that can be done to alleviate that so that the supply side can be increased?

**Shishir Gupta:**

We can take Deepak...

**Audience (Deepak Maheshwari):**

I am Deepak from CSEP. My question is about the term, the unit terms which is used by developers called square feet. Just a few days back one of the secretaries, sitting secretaries in the government of India said that what square feet measurements mean in Gurgaon can differ from Delhi to Noida to Bangalore to Hyderabad etc. so, what is your take on that? Thank you.

**Shishir Gupta:**

Rishi do you want to take them? One is a preference question that George asked. Which is, youngsters buying more than one, but I think there was Deepak a more policy oriented question on what is happening to the failed projects. And anyone else if they want to ask?

**Rishi Raj:**

Maybe let me start with last one. Square foot one. I am not from a traditional real estate background. After McKinsey when joined Max and then entered into real estate. And we were in these commercial offices business, right? And my team said we lease on super built up area basis. So, when you say square feet one of the metrics which is highly abused is what is called super built up area. There is no science behind super built up. There is a science behind super build up area. But when you go deep into it, you find huge amount of inconsistency in the way people define super built-up area on which they will charge residential pricing or commercial rentals. And hence lot of reforms are happening. Particularly on the residential side where the truth that you cannot deny is the carpet area, right? So, if you look at what RERA has said, even in your agreement to sell or agreement to transfer in Noida, you have to very clearly mention carpet area. So, I think things are moving in the direction of creating more transparency into what you are buying. And sooner than later I hope we will see the same on the commercial office side as well, that instead of super built up area you start moving towards the carpet area. And a standard definition of carpet area. On the failed projects if you look at the statistics, a large part of that is in Noida, greater Noida. A large part of the failed projects. And lot of that had to do with the allotments scheme where incumbent and historical developers bought one land by paying 10%, sold and then deployed that money to acquire more land and one of my biggest learning in the real estate is all of us forget that this is a cyclical business. Now when I talk to all our partners in the market, everybody thinks that this cycle will stay forever. So, anyway, in terms of policy, I think there is this Amitab Kant committee report which has come up with recommendation on how to deal with the stuck or failed projects including the projects which are in NCLT under insolvency and bankruptcy code. I think they have made lot of recommendation in terms of some one time settlement or waivers because of NGT ban or waiver because of covid lockdowns. As we speak in Noida, we are seeing on the ground lot of developers engaging with Noida authority in leveraging that particular policy to find solutions. Hopefully we will see in coming months lot many stuck projects to get released and lot many home buyers whose registrations were pending to happen. But its still miles to go yet.

**Shishir Gupta:**

I am also glad that you mentioned RERA because I think it came during Dr Chatterjee's reign as the secretary of the ministry. Please go ahead Dr Chatterjee.

**Nandita Chatterjee:**

I would like to respond to the two issues. First, I will take the second question. That what has happened to failed projects. Now one provision in RERA is there that you have to make

complete disclosure under section 34C of whether it is a defaulting promoter, whether it is a project that's been revoked, whether it is penalized and so on. Now in the event the project is stuck or it fails, the primary provision is the allottees would be given the first opportunity, the right of preemption as they would say to try and pool together and complete the construction. If that is not feasible then the authority of RERA, they will now try and seek options from other developers to come in and complete the project. Now, that's one. I will go back to the issue you raised on the committee. It's called a special window for completion of affordable and middle income projects. The acronym is SWAMIH. Swamih. And what I have on my records is this. This is primarily set up for funding stalled projects as you had said. Till now 342 proposals benefitting 2,18,699 allottees has been unlocked with the funding of 94,634 crores. Now this is what I have here on record from my sources. So, there are two parallel ways of looking at this. One is the policy intervention through RERA which is a legal framework and the second is a more administrative executive process where you actually come in and bail the stalled projects out. I will try to answer your first question. Now, it was interesting that you raised it. I was wondering if somebody is going to raise this. Because, see, affordability is a very relative concept. When I was the housing secretary and I had to face a large number of questions, everybody would ask me what's an affordable housing and primarily we talked about those groups who qualified under the LIG EWS and even middle class when we gave them the CLSS, the interest subsidies. Which basically ranged from an income of 3 lakhs to 18 lakhs. But I have put up a record, a CBRE report. The Coldwell banker Richard Ellis report of November 23. Which says, from January to September 23, the demand for luxury housing that is 4 crores and more has reached a 10 year high. Registering a high of 97%, in fact it goes back to your issue here. And on the other hand, houses flats costing less than 50 lakhs have come down from 177000 to 97,983 from 22 to 23. Now some of the reasons could be, one is some people look at it as a rewarding investment prospect. Because a second or a third house is usually for investment. Not so much for residence per se. The need for post pandemic living, there are incentives like smart houses. You just use your mobile and the facilities are there. Then encouraging housing loans. Aspirations in the upwardly mobile. Then you have of course, the HNIs, the NRIs who are pushing up this demand. So, yes, its housing is being looked upon as an investment opportunity and this is perhaps one reason why the younger generation, the upwardly mobile, who wants to have smart living, who wants to live in aesthetic circumstances, in beautifully surrounded gated communities, they would look at more and more investment options. Yes. I think I will agree with you there.

**Shishir Gupta:**

Laveesh and then Namita.

**Nandini Agnihotri:**

I would just like to add to Dr Chatterjee's answer and try to answer George's first question. So, I am not really sure about the trend amongst youngsters. However, I can comment on the general investment demand and perception around it. So, in this paper itself we find that in 2018 the investment demand for housing which is people buying a second house after owning one already was around 60% of all demand for housing. So, that is really high. And when one buys a second house for investment purposes, one option available to them if they intend to live in it, is to give it out for rent. However rental yields in India are infamously low. They are only around 2 to 3% I believe. So, there are not just enough incentive for a buyer who is purchasing

a second house to give it out for rent. And therefore, it just results in this plot of land that is held up by just one buyer and really goes to nobody else to occupy. So, yes, it does I think demonstrably constrict the supply of housing and land that is actually livable and available to other buyers.

**Laveesh Bhandari:**

I have a question for Dr Chatterjee and that was truly a master class of what ails the urban real estate sector. As a person who has been so actively involved in policy, we know that if there are 20 problems, policy will not be able to address and we try and aim towards one or two. And at best three that we can actually change. So, if you were to change two or three things what would those be.

**Shishir Gupta:**

Dr Chatterjee, let's say take Nandita's question and then... go ahead Namita.

**Audience (Namita Wahi):**

Good evening, everyone. Congratulations Shishir and CSEP for the report. Very insightful and thank to the panelists for your comments. I have a comment and a question. I am Namita Wahi. I am a senior fellow with the center for policy research where I head the land rights initiative. We have done a lot of work on land acquisition laws and land laws. I want to point out a resource to all of you, is the land laws of India.org is a website we launched last year. This has where we have tried to put together all central land laws and laws for eight states. There are 500 laws on the website already and even categorized and classified into various things. And that brought me the question when I read the title of the report. It said housing prices in India but land is a state subject and it is so different across different states that I really wondered whether what is being said here. Maybe specific to only a few major cities. And whether we are going to miss the bigger picture for what... I just wanted to say that we really need to go into each city specifically and try to understand. Then my question is to Dr Chatterjee. Because you in your last comment actually preempted the question that I was going to ask, is that the shadow economy, a lot of it is fed with NRI money. Shouldn't the government... you pointed out the issues with rent control law and the fact that it... I think it has had a lot of benefits as well. I was wondering shouldn't there be more regulation of the way money sort of feeds into this market. I think the supply scarcity is artificial and I think what Nandhini brought out as well. This is scenario where we are creating this artificial scarcity which is pushing more and more land to be either acquired or grabbed from the poor for the purposes of urban real estate. And then you have all this NRI... so recently on behalf of a family member who was abroad I participated in what they bought a DLF apartment allotted. And it was shocking to me the entire process the fact that you had very little say actually that the corporate controlled pretty much everything in the allotment process. And the fact that the prices were so high in terms of... and following that process helped me understand that actually the best units are already allotted to NRIs. The projects take off first by doing these big sales pitches abroad. These NRIs don't live in these houses anyway. So, they are just holding up all of these creating this artificial scarcity pushing prices up for everybody who actually wants to live here and leading to the scarcity that leads to more land being acquired and pushing the rural poor off the land. What can we do to address this?

**Nandita Chatterjee:**

One way I will try to answer a question which will perhaps address Mr. Bhandari's as well as madam your query. I will now try and say that given the challenges we have been discussing across the panel on urban planning and the criticality of land supply. What should be the future thrust areas, if I could. My first opinion would be that you have to empower the city planners to carefully map the residential zones. The infra connect, the availability of basic services as well as the residential amenities. With this and I have said it earlier, we need decentralized ward-wise data, which should be married with a geospatial thematic database. And this is going to culminate in a well-conceived and madam to answer your question an inclusive city development plan curtesy JNNURM and a city investment plan. Because when we talk about NRIs or HNIs you have to also understand that's not the country. The vast majority of the country is the middle income people and the lower than middle income people. And who is going to come forward to provide for them. It's the state and each state, you are very correct, has different ways of doing it. Both JNNURM and as Dr Mathur would recall as well as the urban development regional plan formulation and implementation of 2015 has laid down very detailed guidelines on how you integrate the regional urban plan with the city plans. Madam if you have an opportunity, please go through it again. Because the guidelines are very detailed. Now the question is to what extent the states are actually going to adopt it. Second is if you make a periodic review of the building regulations pragmatically then there will be an increase of housing stock because the developers and builders Rishiji for example, coming from with a background like yours, you would like to take advantage of the city specific FSI and DDR norms. And in the beginning when I talked about the challenges to urban planning, I kept on saying you have to review it periodically. If you have the same FSI for a Bombay city corporation as perhaps Ranchi, then it is not same. You have to look at the density. That's very important. Another thing that I would say if policy making was an issue, you have to delegate more planning power, more finance and resource generation responsibilities on the urban local bodies. Because at the cutting edge level at the end of the day, its urban local bodies who are going to sanction your building plans, they are going to give you clearances, they are the ones who are going to do the mutation. So, whether it is a parastatal in the case of development authorities or whether it's a case of Mumbai corporation or Kolkata corporation or whatever, they need to be empowered and I would insist that urban planners are required to be placed in every urban local body. There is a huge paucity of urban local planners at the city levels. Not all of them have them. Maybe the big ones have it. There is no end to emphasis to urban planning. Another aspect which I would like to talk about given the trust area is the role of technology. Particularly if you want to deliver affordable housing stock or even non affordable housing stock on large scale, prefab, standardized design, rationalized unit costs, are options. The private sector could play a big role in coming into PMAY in the verticals of slum rehabilitation and the PPP affordable housing projects. They could even pilot rental housing options. We have AI today. Artificial intelligence. This could help in sight surveys, project monitoring, project management, access to finance. Another issue which has not been discussed till now, but I think I will bring it in as a devil's advocate is Reits and Invt. The real estate investment trusts and the infra investment trusts. These are the ones with portfolios of real assets, commercial real estate assets as well as infra assets. These could actually assist in long-term investment financing. Of course, one has to see how they have performed. But looking at it in long term financing and affordable housing as well as in connected infra one can actually look at Reits as well as Invt. In my opinion to answer your question Dr Bhandari. The future contours should be on technology driven prefab and modular designs. Shared spaces for living

and working on rental basis. And which I strongly believe in is self-sufficient satellite townships within commutable distances. To release the pressure on the core area but ensure there is good transport. In most of the western world very few people actually live in the metro core. They all commute, whether its by a tube or whatever. I would summarize it by saying you focus on planned town and city development. You look at trans-municipal infra which is an elephant in the room. Because if you have... the development authorities usually would have 10 or 15 municipal bodies with them. Now, if there is a water supply project, its not necessary that that water supply project will cater to only one. So, it has to be trans-municipal. An arterial road which runs. So, trans-municipal infra is very vital particularly if you are going to look at a corridor development or a continuous development of a planned authority area. Reforms in land and housing policies and regulations, delegation of more powers to ULBs and of course, reduction in cost and time overruns. One question that you had raised on whether government could introduce regulations on funding particularly in respect to NRIs. Now, I don't have a straight answer to this question. Because real estate sector would also look for investment. And I clearly remember there was a time when a lot of elasticity and a lot of flexibility was being offered to foreign investors to invest in housing. Its also required, its not that we can say that regulate the NRI funding totally. What I would say is if the planning is good, then you clearly decide which is the land you take for affordable housing, which is the land you will let alone for market place pricing. Affordable housing, let the parastatals, the state government, the urban local bodies come in. And let them build in such a way that the allottees are able to commute to their place of work, they are able to afford the facilities of health and education, they are able to go back at the end of the day to their place of stay and try and see that the common man is able to afford these houses.

**Shishir Gupta:**

Thank you, Dr Chatterjee, for... I think this was the question required a detailed answer. Thank you for that. We are at 5:30. Which was our scheduled close. Laveesh and if it is okay with the panel, can we stretch it by 15 minutes more? Because... Professor Mathur, you will need 10 minutes? Then we will take one last set of two maybe couple of questions, then I will hand it over to you. And if I can request the panel to be brief in your answers because of the time. We can pick it up over snacks after the seminar. Please go ahead introduce yourself and ask your question.

**Audience (Mohak Mathur):**

I am Mohak. I am from Janaagraha. We work in urban governance and municipal finance. My question is more general. I have an observation that, since we are talking about supply, once invested in real estate say for any young people, to get out of it there is one consideration which is capital gain tax. If some changes were to happen there, do you think it would help in maybe releasing more supply. If let's say that is done away with because we talk about people holding two or more assets and clearly its not a great investment in terms of returns. But my sense is maybe they are looking for other real estate investments to transfer it. Because they need to or they might have to give a capital gain tax. So, if some changes... do you think a change could impact?

**Rajesh Chadha:**

I am Rajesh Chadha. I am from CSEP. My question is, there was a reference to DDA in between. And it was also said that it is good to have central or town level planning bodies which DDA is supposed to be. So, I have two observations, not in detail. That DDA once accepted multi-thousand or multi-lakh applications for land allotment in a particular area in Delhi which was to be met by 1994. 81 to 94. The situation is that that promise has not yet been met. Instead, there have been affordable houses created in same area or far away without any civil amenities and I don't know how many million worth of rupees have been spent on that. Nobody is living there. The houses are dying their own death. So, if the central body like DDA which is supposed to be town planners cannot plan the town, even having the master plan, then God save the smaller towns.

**Audience (Debarpita Roy):**

Very simple mathematics kind of was going through my head. Mr. Raj said affordable housing is 45 lakhs. And the mathematics that works for him is  $\frac{1}{3}$ <sup>rd</sup> land cost,  $\frac{1}{3}$ <sup>rd</sup> construction cost and  $\frac{1}{3}$ <sup>rd</sup> profit. So, 15 lakhs land cost, right? Roughly? Let's just you know very simply. 15 lakhs happen to be also the affordability limit for EWS household who has an income of limit of rupees three lakhs. So, straight away that 15 lakhs the land cost should be ideally 5 lakhs. Not more than that. Dr Chatterjee my question to you is that through all the host of reforms that has been going on in the country and very strong impetus by the government, how realistic really do you see and where is that gap, that it has not so far even happened, even with now 9 years of PMAY and so many years of JNNURM before this. What really needs to be done on the implementation front? That's my question.

**Shishir Gupta:**

Dr Chatterjee, again because I am cognizant of the time now, you can give a quick reply to these questions. And then we can pick it up for detailed conversations over tea coffee. Thank you.

**Nandita Chatterjee:**

Very quick answer would be that yes, again as I began saying, the criticality is in the land supply. The devil is in the details. When he says 15 lakhs or whatever, if more land is made available and if it is based on the... if you recall I also referred to the national land utilization policy... then the availability of land being more, we would expect the land prices to gradually settle at a level which would ultimately try and bring down the cost of affordable housing to an extent. Secondly, to answer your question, one of the verticals in PMAY is CLSS which actually tries to bridge the gap with housing loans at a subsidized interest. In fact, if I recall correctly, we had even gone up to the level of MIG housing. Where MIG 2 was supposed to be a category with 18 lakhs of income. And they were also being given subsidized interest to enable them to purchase some of the more reasonably priced houses in the market. So, there will be two ways to answer your question. One is making more land available if necessary, within commutable distances, with infra connect, satellite townships where people can move and live at a fairly dignified level. Second is yes, try and encourage the aspiring classes to avail of housing loans which are more user friendly or which are more borrower friendly to fulfill the aspirations. These are the ways I can answer your question.

**Rishi Raj:**

I think whatever said and done land at the end of the day will be a scarce resource. A better planning, a consistent supply of land will help. But I think we as developers will also need to take the responsibility of significantly bringing down cost of constructing the houses. Now, some of that is not in our control because it is commodity price driven which is more global or at India level decided. But I agree with Dr Chatterjee's remark on use of technology. I think, if you look at real estate sector and if you map real estate sector on the digitization score, it is right at the bottom. If you look at IT spending in construction is right at the bottom. Prop-tech is today where fin-tech was two decades ago. So, there is a huge scope of bringing digital and IT to streamline the cost of construction and make cost of supply more affordable.

**Pritika Hingorani:**

I will add a very quick point. Because we talked about bringing down the cost of construction. The other issue that's been plaguing particularly the affordable segment, is regulation. So, the requirement for say one or two parking spots which I think can be rationalization there as well, which is to bring down those requirements.

**Shishir Gupta:**

So, thank you so much, to the panelists, to the audience. This was intended to be a discussion, right. We can't solve it, right? My high level takeaways are a lot lies still with the planners and the state. Heartening that Rishi, things are improving. One thing that struck me is again the Noida example that you can actually lot of times hear that there is not enough capital or money available to develop infra before you sell, right? But Noida is doing the reverse. So, I think there are some interesting things that are happening. I just hope that we continue in that direction. Before I hand it over to Professor Mathur for his closing remarks I just want to say thank you so much Prof Mathur, he must have gone through four or five versions of the paper, it took far, far longer for us and we couldn't have done it without you and Dr Mohan's help and support. So, we owe it to you and many thanks to our comms and events team. They work behind the scenes tirelessly so that the messages spread out sharply, widely and everything goes off smoothly today. So, thanks a lot to you folks for all the help. Professor Mathur, over to you.

**Om Prakash Mathur:**

Thank you very much, Shishir and your team for doing this paper. Shishir my understanding of the housing market is somewhat different from the impression that I am getting at the end of this two hour discussion. My impression was that there is a \_ disconnect in the housing market. In the sense that, we are placing more and more emphasis on high level, high income housing units compared to where the demand actually exists which is the low income segments of the population. What is coming out is that, what the 2011 census showed that we have vacant housing at the high income levels, the surplus. And we have a huge deficit for the low income housing. So, the housing market has become far more complex today than what it was possibly in Dr Chatterjee's time, just about not even 10 years ago. I was also sort of looking at the... since you mentioned about some of the figures with respect to the cost composition, my recollection is that in the 70s and 80s and the early 90s, if we take three components of the cost with the land cost, the wages the labor cost and the capital cost, building material and so on so forth, the proportions in those years used to be 25% was land, about 15% was wages and about 65% was the capital cost. Because of the controlled economy that India was in those years, steel



was not available, cement was not available, so all of that. Today it has reversed completely. Today the land cost is 65%. The construction cost or the capital cost is roughly about 25 to 30% and the balance of about 15 to 20% wages. So, it is becoming... and we don't know whether this is we have reached a point where it is this composition that we deal with or whether these the changes are going to come in this cost composition as well. So, it is very different today than what it used to be first. The second point picking up from what Dr Chatterjee said. Two points in fact. One is the politics of reform. And I will give specific example of one of the reforms from the NURM period. Which is the abolition of urban land ceiling act which had come in 1976 as part of what Mrs. Gandhi at that time Prime Minister said 'gareebi hatao'. And that act fitted very well into the policy framework that the Prime Minister was setting out, no more than 500 square feet yard or 500 square meters. When NURM came and it was made one of the conditions for assessing aid, I remember my meeting with ministers in West Bengal. Where the ministers said look, it was the CPI, CPM government. Look, we can't do that. I said, well then you lose the aid. He said no and that was your Ashok Chakravarty was the minister. That is right, he was the minister when I met him. He said it does not fit into the political framework of the government. And you are asking us to do precisely what our government cannot do. But instead, what will we do in order to access aid was that we will put a heavy tax on those landlords who have more than 500 sq.mt or yards of land? I don't know whether that was done by them, but Dr Chatterjee was able to convince us at the meeting that he has. We in fact wanted \_\_. But we will do that later. But the second example also came of this from Maharashtra. Maharashtra government did sort of say that we are abolishing it. We are abolishing it. After about a year or so we rang up Mr. Deepak Parekh to say that now, and must be available in Maharashtra because this has happened. He said, oh not one bit. What has happened. All cases have gone to the court. And so, land remains unavailable for the low income households which was the original intention under the abolition. So, this is the second point I wanted to make. And the third point is we have really not discussed regulations in the land market and how the land market distortions are affecting the prices. We don't really have much of data on and market distortions. And how they impact housing particularly the housing prices and in your paper. We have been talking about it, if you have access to the first plan and second plan, that right from the first five year plan we have been saying that the land market distortions are severe in the country. There is nothing that you can get done, whether it is... whatever you might call it. But you can't. The issue there is the moment... assume for a minute the regulations \_\_, some calculations have been done show that the formality in this market would increase the prices to a level where no one would be able to afford it. There would be monopoly or oligopoly as far as land is concerned. Those trends will come in and then market would become even more difficult from the functional point of view. Now these three points that occurred to me listening to this discussion and so on so forth. But it has been a very productive, very enterprising kind of \_\_ looking at housing prices which is a very difficult, which is a very complex subject. You can't really explain why are they rising and why are they declining. And you yourself say that the cyclical behavior of housing prices has set in. But thank you very much. It was a very interesting thing and I am glad that we could get Dr Chatterjee from Kolkata and Pritika from Mumbai and of course, our colleague from Delhi itself.

**Shishir Gupta:**

Thank you so much professor Mathur. Please join us over high tea. Thank you.