SBI Research: Special Report on Emerging Trends in Residential Housing

How the SVAMITVA scheme, focus on aspirational districts, PMAY(U) scheme coupled with the pandemic are creating a goldilocks period for households: Demand for residential houses in tier 3 and tier 4 districts across India is booming with a large tilt towards first time women borrowers, with a higher ticket size coupled with a focus on economically weaker sections across Indian states: Epitome of a new social cultural fabric in hinterlands of India with empowerment of women through properties & property rights….

August 8, 2022

State Bank of India
Mumbai

Summary: Working from Home is redefining the priorities as Households are shifting into digital offices within own homes in Tier 3 and Tier 4 districts……

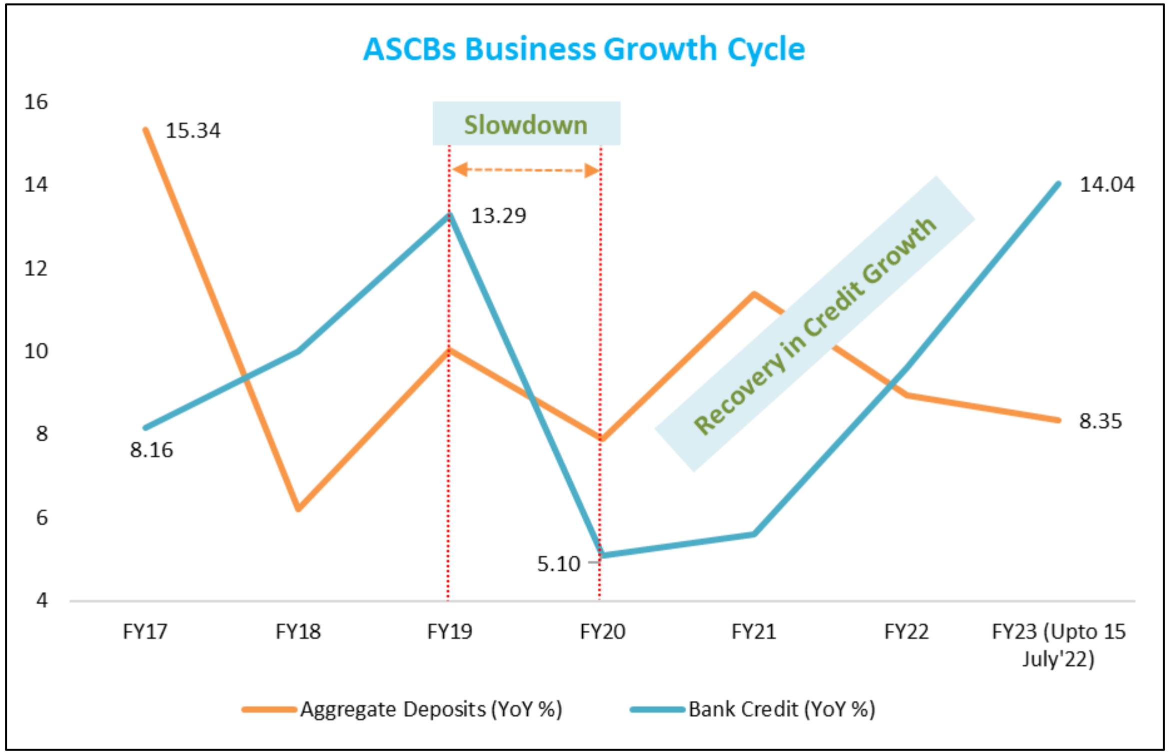
- The ASCBs credit growth has been on upswing post FY20, led by growth in retail credit. Moreover, the share of 'Housing Loans' (contributing to 50% of personal/retail loans) in 'Bank Credit' has increased to 14.4% in June 2022 from 13.1% in March 2020
- Post COVID-19 Working from Home has emerged as a dominant trend that is redefining the Mortgage Loan Demand for the Household Sector
    - Our study on district wise home loan portfolio (outstanding) for ASCBs (juxtaposing SBI & ASCB results by using market share, trends and benchmarking) shows that total portfolio grew by more than 10% in FY22, with districts in tier 3 and tier 4 areas growing at a much faster rate than tier 1 and tier 2 districts post pandemic
    - Subsequently, housing prices have increased significantly (in % terms) in tier 3 and tier 4 cities than in major cities over the last year
    - The combined share of tier 3 and tier 4 districts in fresh disbursement, though small, has also been growing steadily over the years. It has now grown to 36% in FY22 compared to 32% in FY19
    - Average ticket size has increased much more in Tier 3 (1.3 times) and Tier 4 (1.4 times) districts as compared to Tier 1 (1.1 times) and 2 (1.0 times) districts between FY22 and FY19
- Furthermore, number of female borrowers in new disbursement increased significantly in FY22 in tier 3 and tier 4 districts. Among the top 20 districts with highest share of female borrowers in fresh home loan disbursal in FY22 (which are mostly rural), 6 districts are from Chhattisgarh and 3 from Gujarat and Haryana each
- Amongst the 124 aspirational districts, the performance of some of the districts in fresh home loans is quite impressive. In 76 districts (~60% of total aspirational), CAGR (FY22 over FY18) of fresh disbursements was more than 10%

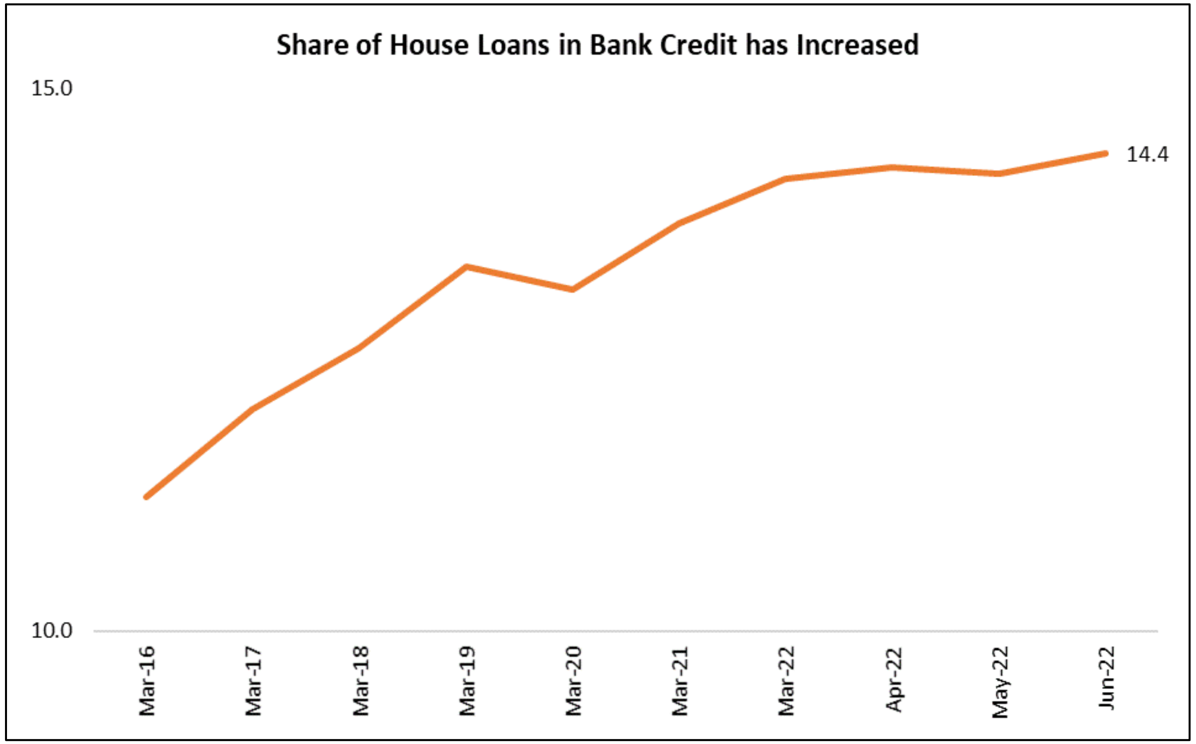
..Aspirational Districts, SVAMITVA scheme, providing documentation rights to rural livelihood, PMAY(U) are creating a new socio-cultural ecosystem of preponderant women borrowers across non metro areas….empowering women…

- This rising home loan demand in rural districts can be attributed to the SVAMITVA scheme providing rural people with the right to document their residential properties which can then help them to use their property for economic purpose. Haryana and Uttar Pradesh, where this scheme has already covered many villages, have more districts where home loan disbursal is increasing at a faster pace
- Central government schemes like AMRUT, PMAY(U) and Smart Cities Mission have been pivotal in creating a holistic 360 degrees ecosystem that has seen housing demand accelerating in non-metro areas. PMAY(U) in essence has been the pole star of ensuring 'Roof & Respect For All' and has altered the Socio-Cultural fabric meaningfully, by ensuring property ownership to an overwhelming large number of women which can further strengthen other welfare schemes
- Ministry of Urban Housing has recently launched a cluster redevelopment scheme that has the potential to decongest Metro areas suitably as most of the prime areas in cities have dwelling units that were constructed 50-60 years ago and are past their shelf life. A Fast Track, Single Window system for clearance to redevelopment projects through RERA can unclog huge parcels of land and accelerate redevelopment in prime areas
- Tweaking the SARFAESI act to enable credit sanction for properties in rural areas can provide further fillip to Housing For All in true letter and spirits

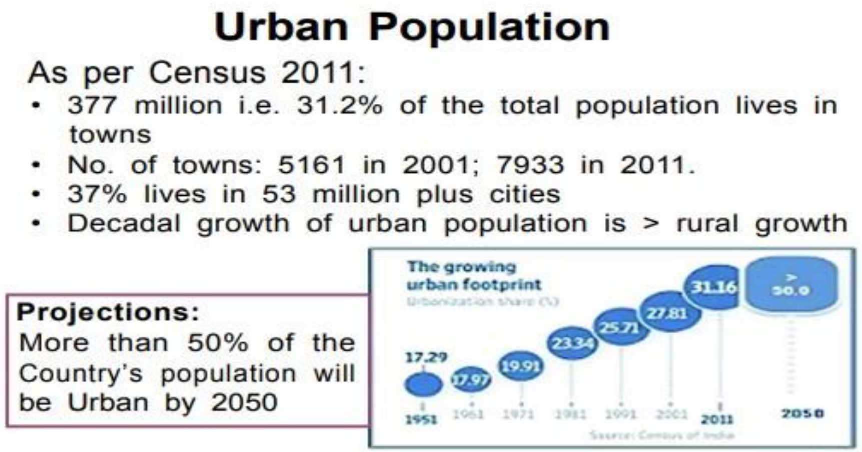
Overall Demand for Credit Improved: Led by Retail Loans especially Housing

- The ASCBs credit growth has seen a U-turn after FY20, led by growth in retail credit. The share of 'retail credit/personal loans' in overall 'Bank credit' has jumped to 29.1% in June 2022 from 26.2% in March 2020
- The share of 'Housing Loans' in 'Bank Credit' has increased to 14.4% in June 2022 from 13.1% in March 2020. Housing contributes around 50% of the personal/retail loans

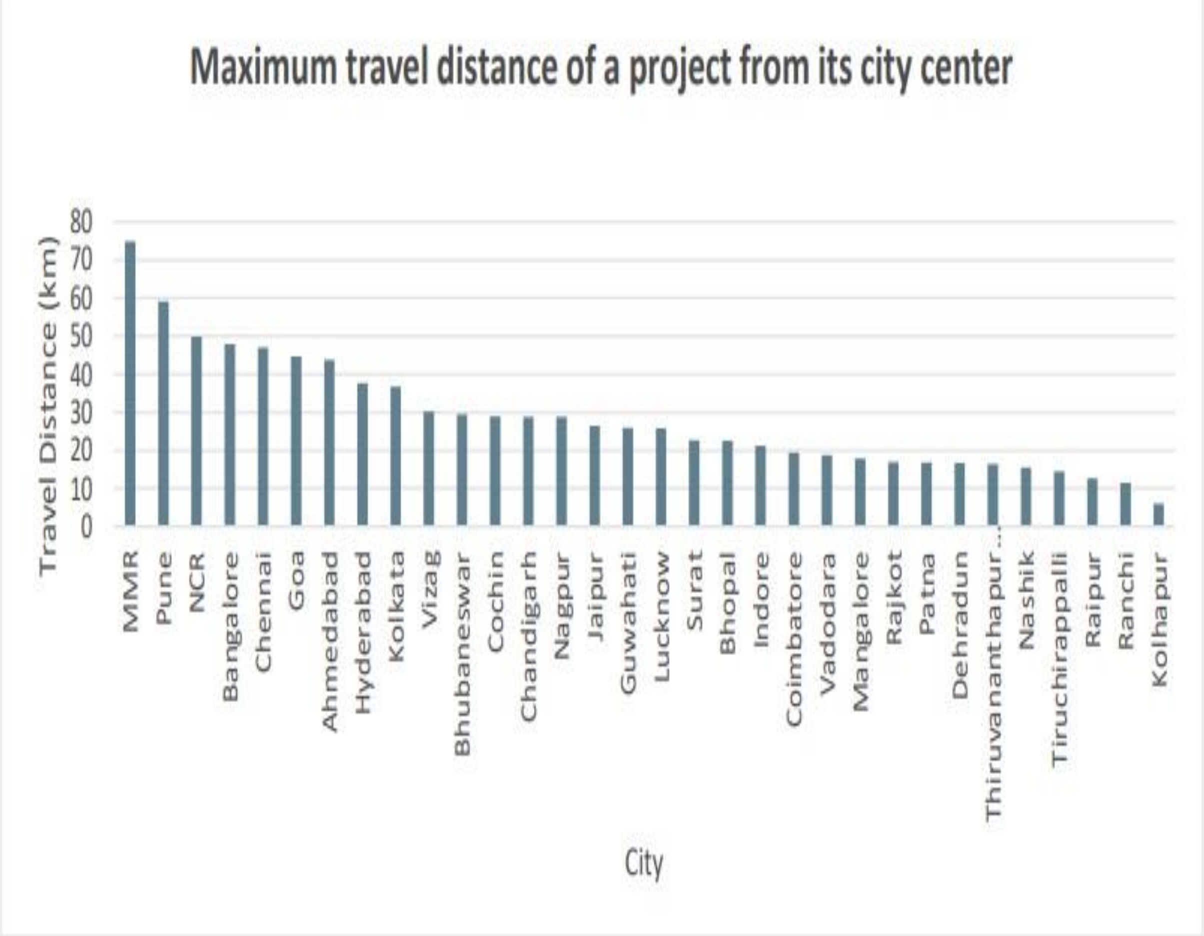




- Buying decisions, contrary to embellished beliefs, are not pivoted to ***Price alone*** any longer as home buyers' decisions are increasingly being shaped by significant intangibles viz. locality, facilities offered, distance to essentials/necessities (education, healthcare, financial), common as well as exclusive facilities offered and future growth prospects of the area as housing emerges as a safe and reliable investment option too (in particular, for secondary/tertiary buyers)
- The housing market for residential units has remained ***information asymmetric*** with no centralised reliable source for buyers to access and examine the investment options, developers' credentials, growth prospects in terms of appreciation of investment, recourse available in terms of default by builders (especially, non-RERA registered properties)
- Rapid and constant urbanization (despite emerging hybrid model of WFH/WFA post-pandemic) ensures that there would be a constant demand for properties in metro/urban area (fresh construction as well as redevelopment projects) though the new hotspots in terms of residential market expansion would be Tier-II/III centres whose rising income and penchant for improved facilities should witness a boom in 360 degree real estate development activities
- *According to Census 2011, 37.71 crore Indians comprising 31.16% of the country's population, lived in urban areas. Urban areas are "engines of economic growth" and it is estimated that they contribute more than 60% of India's Gross Domestic Product (GDP). Urban population is projected to grow to about 60 crore by 2031. The rapid urbanization poses several challenges which include improving quality of urban services such as water, sanitation and urban transport; reducing urban poverty; planned development of land resources and curbing spread of slums. (MoHUA Annual Report 2021-22)*



Research Methodology….. Buying behaviour of Households specifically post pandemic …Distance to Central Business District was a key factor hitherto (But, it's changing now)



Affordability is pushing buyers farther from centre to periphery in major cities, commuting often great distance from residence to work places…Hybrid work model (with WFA/WFH) should lessen the woes greatly…**Interestingly, urban agglomerations that have better ranking on cleanliness seem to be featuring better in affordability matrix as the ecosystem is geared towards behavioural change!**

Data by Liases Foras

Data Methodology……………..

- Covid changed our lives in many ways. One such trend that has been an outcome of the pandemic is *work from home*
- Almost all the companies (private and public) resorted to *work from home* policy during the first wave in 2019 and some are still working on the same mode, or have moved to hybrid model as a post-pandemic strategy
- The increased job opportunities coupled with the lower cost of living had already led many to start shifting their bases away from over-crowded metropolitan cities. Several top-tier developers had already launched international quality lifestyle residential projects to cater to the changing demand patterns. The government's infrastructure focused schemes like AMRUT and Smart City projects is also helping in developing world class infrastructure in these cities
- Against this backdrop, we analyzed home loan portfolio by juxtaposing SBI and ASCB using market share, trends and benchmarking to see the visible change post pandemic. We used district wise data with districts classified into various categories or tiers
    - Metropolitan regions of Bangalore, Chennai, Delhi(NCR), Hyderabad, Kolkata, Mumbai, Ahmedabad, Pune are considered as **tier 1**
    - State capitals and evolving areas are categorized as **tier 2**
    - Rest of the districts are categorized as **tier 3 and 4** based on their urban population. If urban population of the district is between 26-50% it is classified as tier 3 and rest as tier 4 (basically rural districts)

Housing Prices increased more in smaller cities than in metros reflecting the shifting demand across residential housing..

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- Housing prices have increased significantly in smaller cities and suburbs than in major cities over the last year
- Many tier-2 cities including Vishakhapatnam, Guwahati, Raipur, Surat, Vadodara, Jaipur, Lucknow, Dehradun and tier-3 city Coimbatore have witnessed higher growth in housing prices
- Has increasing trend of work from home and freelance jobs led to higher demand of homes in smaller cities and towns?
- **We believe so!**

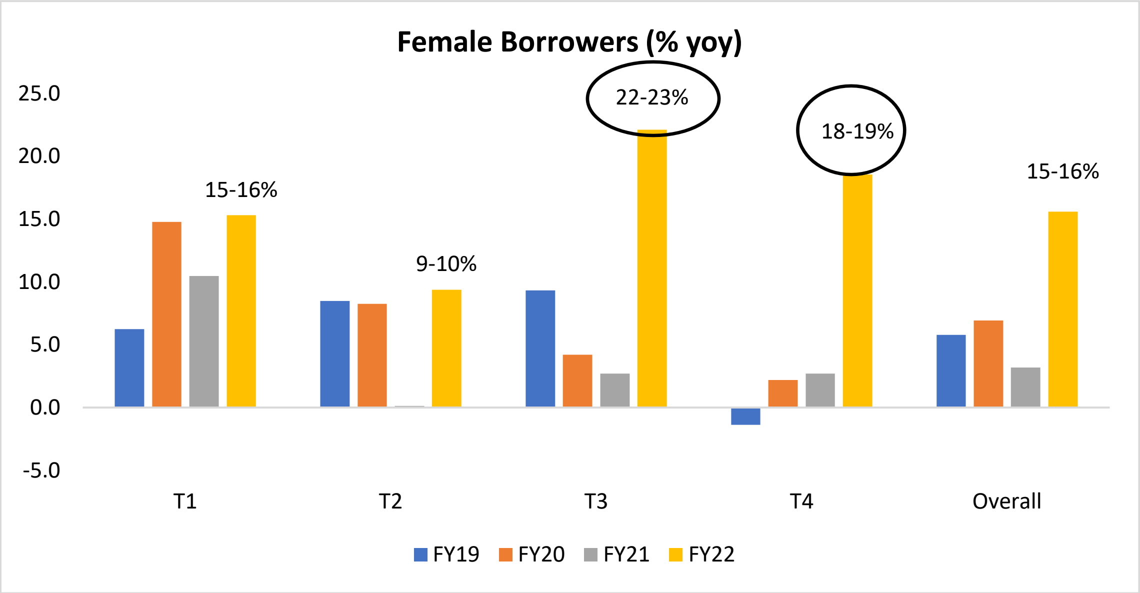
Change in housing prices (% yoy)

City	Tier	Mar-19	Mar-20	Mar-21	Mar-22
Ahmedabad	T1	15.1	13.9	10.8	17.5
Bangalore	T1	8.7	0.0	6.2	3.3
Mumbai	T1	0.0	5.8	-3.7	3.8
Pune	T1	1.9	4.7	0.9	2.7
New Delhi	T1	-3.1	-4.2	9.9	0.0
Chennai	T1	4.0	-1.9	4.0	11.4
Kolkata	T1	7.0	10.3	0.0	3.4
Nagpur	T2	2.0	6.7	0.9	-3.6
Nashik	T2	5.8	-0.9	-1.9	1.9
Navi Mumbai	T2	1.0	-3.8	22.0	-3.3
Visakhapatnam	T2	4.9	10.3	-2.5	11.3
Guwahati	T2	18.2	7.7	6.3	15.7
Patna	T2	9.8	25.9	-6.4	6.8
Raipur	T2	24.7	-6.6	1.8	19.1
Gandhinagar	T2	9.1	20.8	6.2	15.6
Rajkot	T2	-1.0	3.0	1.0	4.8
Surat	T2	0.9	1.9	5.5	11.2
Vadodara	T2	7.7	13.4	0.0	12.6
Bhiwadi	T2	28.6	-8.7	-7.0	0.0
Jaipur	T2	2.0	2.9	-1.0	9.6
Lucknow	T2	4.7	-0.9	-1.8	17.4
Dehradun	T2	6.9	11.0	-7.4	11.6
Lucknow	T2	4.7	-0.9	-1.8	17.4
Meerut	T2	2.9	-2.8	7.6	2.7
Noida	T2	21.5	-10.6	8.9	0.0
Vasai-Virar City	T3	1.0	2.0	1.9	4.8
Sahibzada Ajit Singh Nagar	T3	-1.9	4.8	10.9	-5.7
Coimbatore	T3	25.3	-8.1	-0.9	17.7
Greater Noida	T3	5.0	0.9	3.7	9.9

Source: NHB, SBI Research

Number of Female Borrowers increased significantly in tier 3 and below in FY22

- Number of female borrowers in new disbursements increased significantly in FY22 in tier 3 and 4 districts
- Among the top 20 districts with highest share of female borrowers in fresh home loan disbursal in FY22 (which are mostly rural), 6 districts are from Chhattisgarh, 3 from Gujarat and Haryana each
- These districts have on an average 49% female share in total population

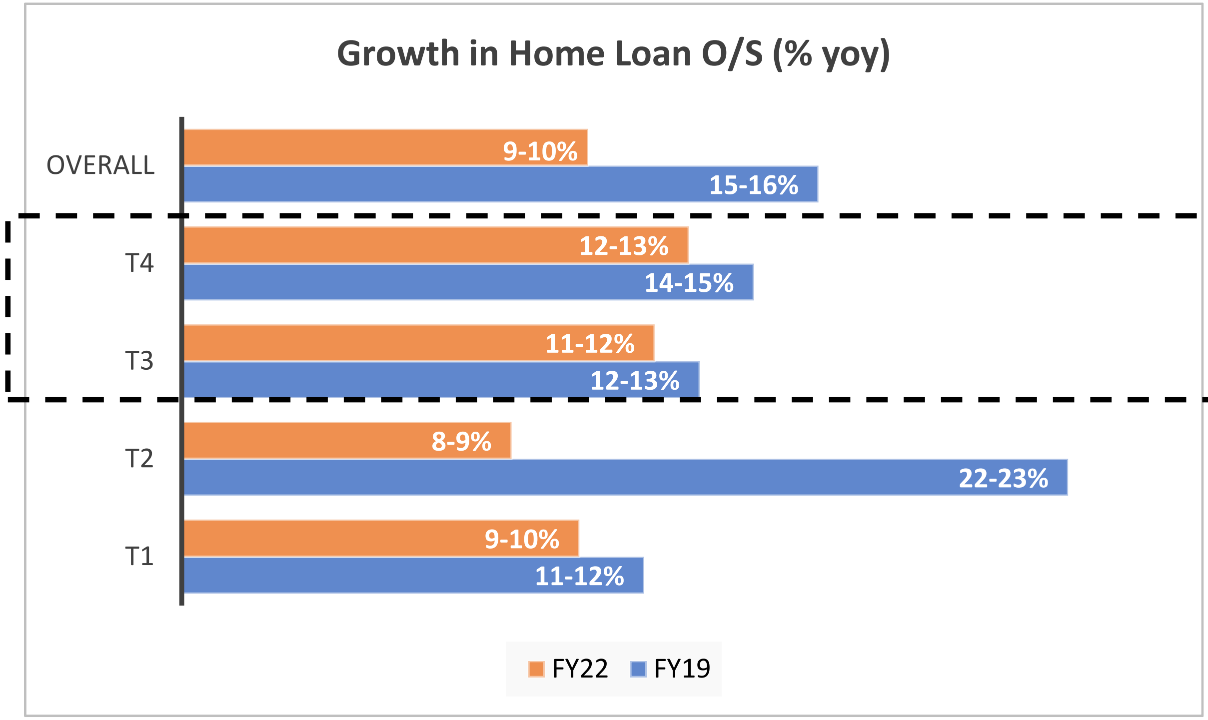


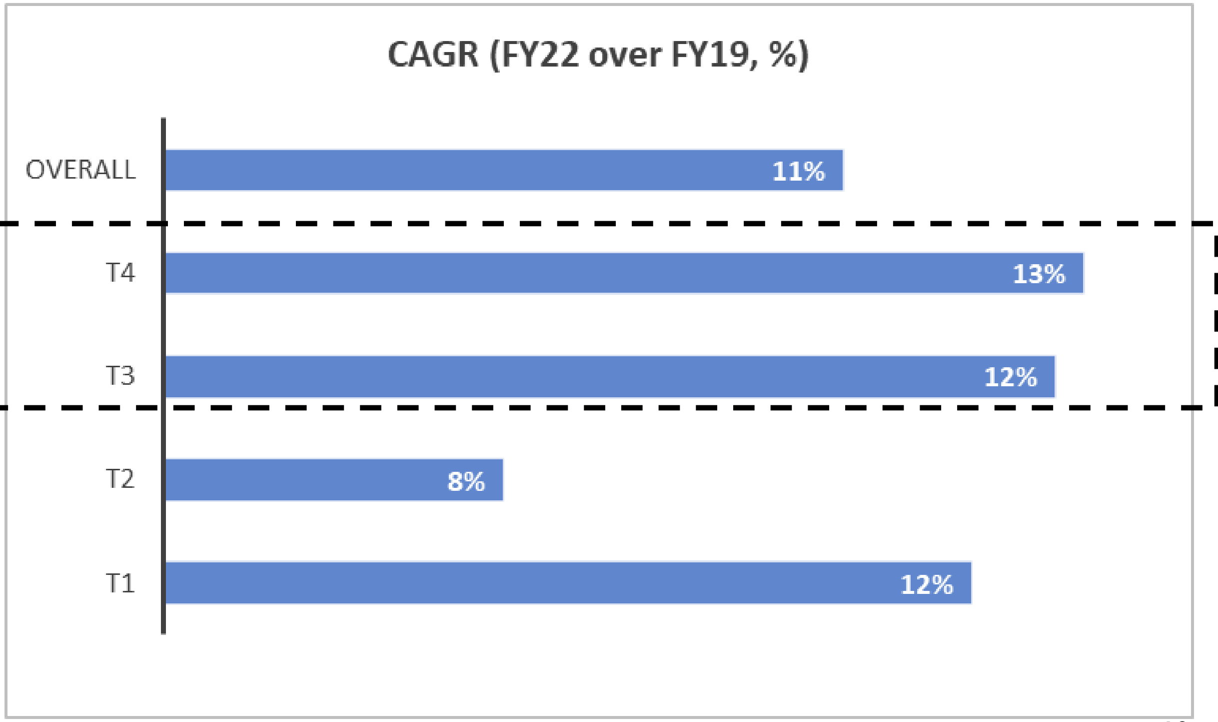
Top districts with maximum share of Female Borrowers in Fresh Disbursal during FY22			
District	State	% Share of female borrowers in fresh disbursement	% Share of Female Population to total population
Dang	Gujarat	86%	50%
Arwal	Bihar	75%	48%
Botad	Gujarat	63%	48%
Palwal	Haryana	58%	47%
Jashpur	Chhattisgarh	58%	50%
West Godavari	Andhra Pradesh	57%	50%
Ballia	Uttar Pradesh	57%	48%
Mungeli	Chhattisgarh	57%	49%
Baghpat	Uttar Pradesh	56%	46%
Gariyaband	Chhattisgarh	55%	51%
Surguja	Chhattisgarh	55%	49%
Bageshwar	Uttarakhand	54%	52%
Banas Kantha	Gujarat	54%	48%
Kondagaon	Chhattisgarh	53%	50%
Sonipat	Haryana	52%	46%
Kaithal	Haryana	52%	47%
Uttar Bastar Kanker	Chhattisgarh	51%	50%
Guntur	Andhra Pradesh	50%	50%
Udham Singh Nagar	Uttarakhand	50%	48%
Dakshin Bastar Dantewada	Chhattisgarh	50%	51%

* North East states are not considered for this analysis

…. Home Loan portfolio has grown at faster rate in tier 3 and tier 4 districts

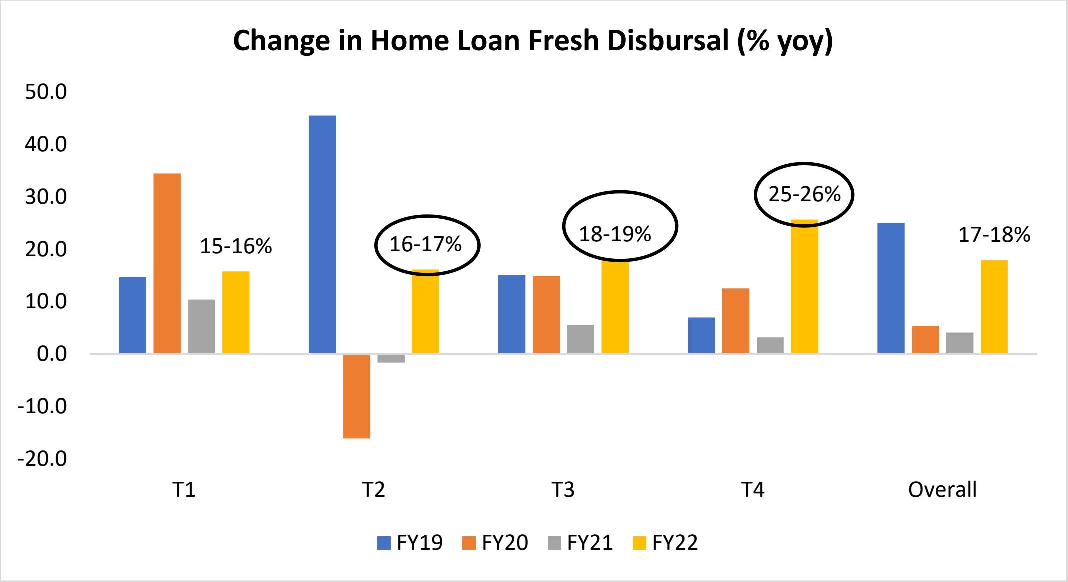
- Total home loan portfolio (outstanding) grew by more than 10% in FY22, with districts in tier 3 and tier 4 areas growing at a much faster rate than tier 1 and tier 2 districts post pandemic
- CAGR of home loan portfolio during FY22 and FY19 comes at 11%, with higher growth in tier 3 and tier 4 districts (12-13%)





Fresh disbursals mirror similar trend…..

- Fresh disbursal of home loan has also increased more in tier 2 districts and below in FY22. CAGR of fresh disbursal shows higher growth in tier 2, tier 3 and tier 4 districts
- Interestingly, implying ticket size of loan disbursed in smaller districts has also increased in Tier 3 and Tier 4 cities



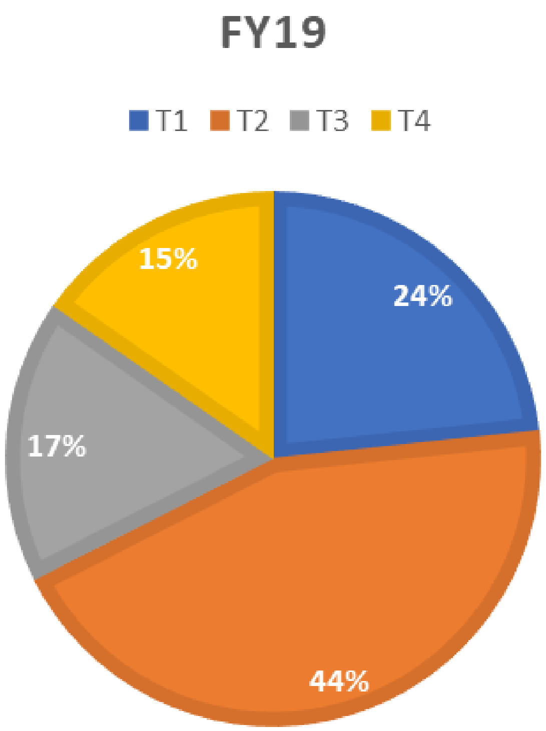
FY22 over FY19 CAGR

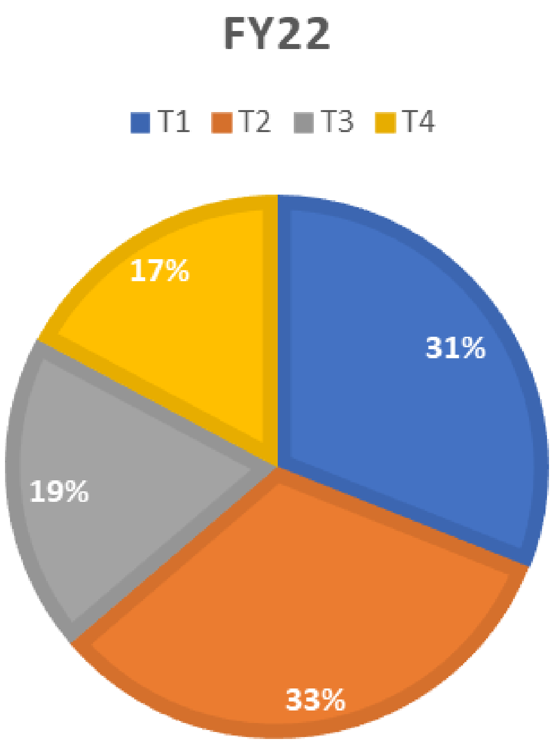
Overall: 9%

T1: 20% **T3: 13%**
T2: -1% **T4: 14%**

….Share of tier 3 and Tier 4 districts in Fresh Disbursal is also improving

- The combined share of tier 3 and tier 4 districts in fresh disbursement, though small, has also been growing steadily over the years. It has grown to 36% in FY22 compared to 32% in FY19





Districts with maximum growth in fresh disbursal in FY22 over FY19 – mostly rural and semi urban districts

- Fresh disbursal have shown maximum yoy growth in tier 3 and below districts in FY22 over FY19

- Amongst the top 20 **tier 3 districts**, maximum number of districts are from Punjab and Karnataka (5 each). These being 20 semi urban districts, together their share in GDP is ~2.9%

Top tier 3 districts with maximum yoy growth in fresh disbursal in FY22 over FY19					
S. No.	District	State	S. No.	District	State
1	Bidar	Karnataka	11	Belagavi	Karnataka
2	Bagalkote	Karnataka	12	Raigad	Maharashtra
3	Barnala	Punjab	13	Cuddalore	Tamil Nadu
4	Rohtak	Haryana	14	Sangli	Maharashtra
5	Faridkot	Punjab	15	East Singhbhum	Jharkhand
6	Sahibzada Ajit Singh Nagar	Punjab	16	Sambalpur	Odisha
7	Jharsuguda	Odisha	17	Kolar	Karnataka
8	Kapurthala	Punjab	18	Ballari	Karnataka
9	Hisar	Haryana	19	Rupnagar	Punjab
10	Bhind	Madhya Pradesh	20	Rampur	Uttar Pradesh
*districts of North East not considered					

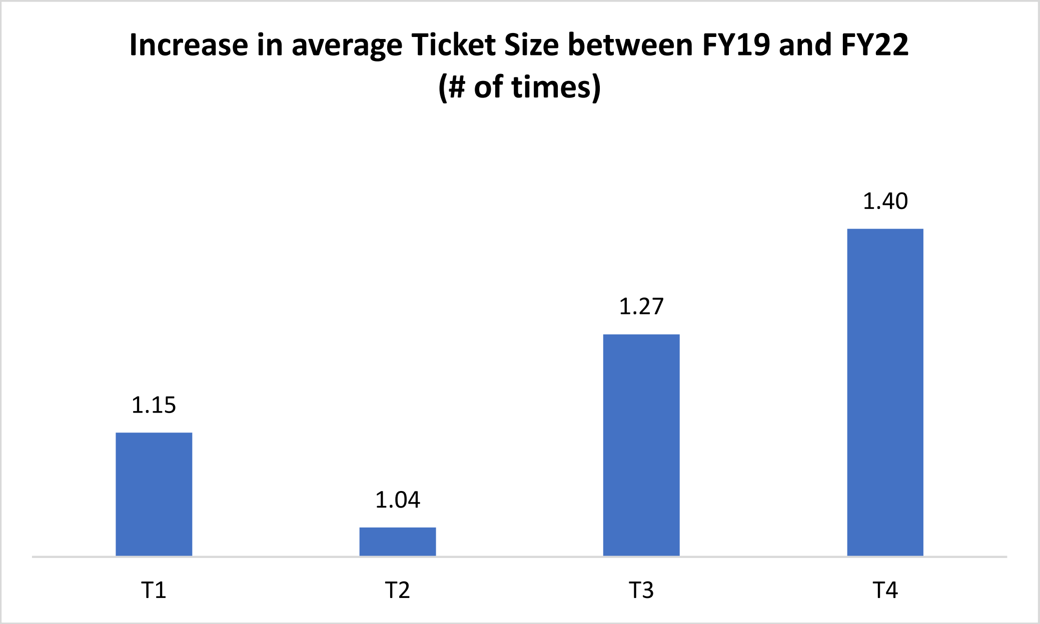
Districts with maximum growth in fresh disbursal in FY22 over FY19

- Amongst **tier 4 districts**, Uttar Pradesh tops the list having 6 districts amongst the top 20 with maximum growth. These being 20 rural districts, together their share in GDP is ~0.8%

Top tier 4 districts with maximum yoy growth in fresh disbursal in FY22 over FY19					
S. No.	**District**	**State**	**S. No.**	**District**	**State**
1	Sheohar	Bihar	11	Etawah	Uttar Pradesh
2	Gumla	Jharkhand	12	Dindori	Madhya Pradesh
3	Gariyaband	Chhattisgarh	13	Kandhamal	Odisha
4	Ashoknagar	Madhya Pradesh	14	Barabanki	Uttar Pradesh
5	Bijapur	Chhattisgarh	15	Sukma	Chhattisgarh
6	Umaria	Madhya Pradesh	16	Pilibhit	Uttar Pradesh
7	Kinnaur	Himachal Pradesh	17	Chandauli	Uttar Pradesh
8	Dhenkanal	Odisha	18	Mirzapur	Uttar Pradesh
9	Kondagaon	Chhattisgarh	19	Gadchiroli	Maharashtra
10	Nayagarh	Odisha	20	Amroha	Uttar Pradesh
*districts of North East not considered					

Average Ticket Size increased more for districts at the lower end

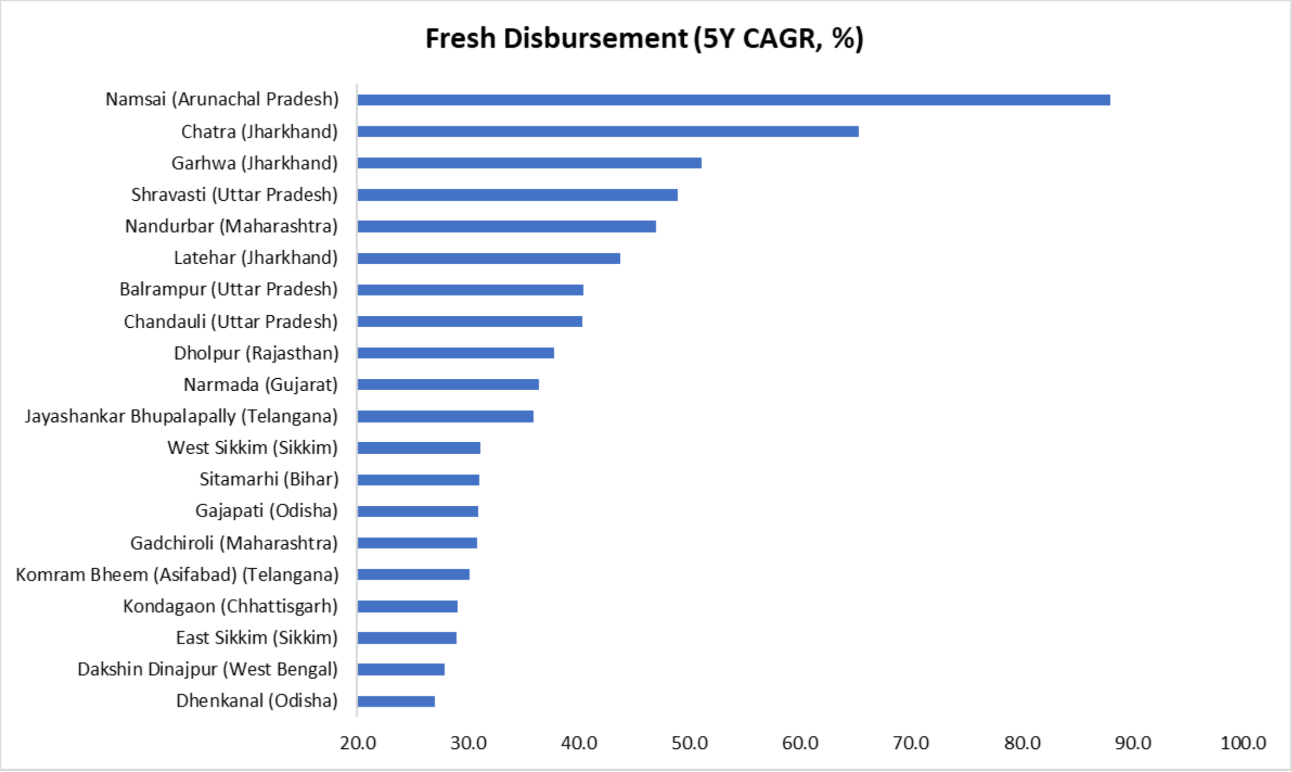
- Average ticket size has increased much more in Tier 3 and below as compared to Tier 1 and 2 districts
- In particular, the growth in loans in Rs 30-50 lakhs and Rs 50-100 lakhs brackets has been higher in tier 3 and below districts when compared to the tier 1 districts, albeit their share in total loans is still low in these brackets (combined share of Tier 3 and 4 at 37% and 25% in Rs 30-50 lakhs and Rs 50-100 lakhs respectively)



Fresh Disbursal in Aspirational Districts

- Launched by the Prime Minister in January 2018, the Aspirational Districts programme aims to quickly and effectively transform 124 most under-developed districts across the country
- We analyzed the status of fresh home loan disbursements in these 124 aspirational districts. Since some of these districts are in remote and hilly areas, even then the performance of some of the districts is quite impressive
- In 76 districts (~60% of total aspirational) CAGR (FY22 over FY18) of fresh disbursements was more than 10%

5Y CAGR Range	# of districts
More than 20%	38
10-20%	38
0-10%	24
Less than 0%	24
CAGR of 124 aspirational districts: 11%	



Shifting trends towards Digital Offices within Residential Homes…as a test case… Nagpur has shown increased interest post pandemic

- Analyzing the new property registrations on a test case basis for Nagpur (where comparable data has been sourced from third party agency), we have seen Nagpur witnessing a traction in new property purchase by buyers

- As the pandemic forced buyers to reassess the work-life balance, cities having better infrastructure connect have found renewed interests from new-gen buyers whose digital lifestyle enables them to connect to work from anywhere
- Interestingly, the secondary market sales have overtaken the primary market sales in Nagpur, vindicating the trend of new settlers moving to surrounding areas from bigger metros. Relocating to smaller cities demands buying ‘ready to move’ houses. Secondary home sales exceed the primary home sales by ~70%. Total houses sold since September’2020 constitute ~46% of overall cumulative sales from April’2017 (5 years period)
- This augurs well for smaller cities with better infrastructure, in education/healthcare facilities which should witness phenomenal growth in overall development, led by booming demand

SVAMITVA scheme beginning to create a multiplier impact of demand for houses in rural areas?....

- Survey of Villages Abadi & Mapping with Improvised Technology in Village Areas (SVAMITVA) Scheme is a Central Sector scheme launched by Hon'ble Prime Minister of India in April 2020. It aims to provide rural people with the right to document their residential properties so that they can use their property for economic purposes. The scheme is for surveying the land parcels in rural inhabited area using Drone technology. The survey shall be done across the country in a phase wise manner over the period 2020 -2025
- The scheme seeks to achieve the following objectives:
  - To bring financial stability to the citizens in rural India by enabling them to use their property as a financial asset for taking loans and other financial benefits
  - Creation of accurate land records for rural planning
  - Determination of property tax, which would accrue to the GPs directly in States where it is devolved or else, add to the State exchequer
  - Creation of survey infrastructure and GIS maps that can be leveraged by any department for their use
  - To support in preparation of better-quality Gram Panchayat Development Plan (GPDP) by making use of GIS maps
  - To reduce property related disputes and legal cases

…SVAMITVA scheme beginning to create a multiplier impact of demand for houses in rural areas?

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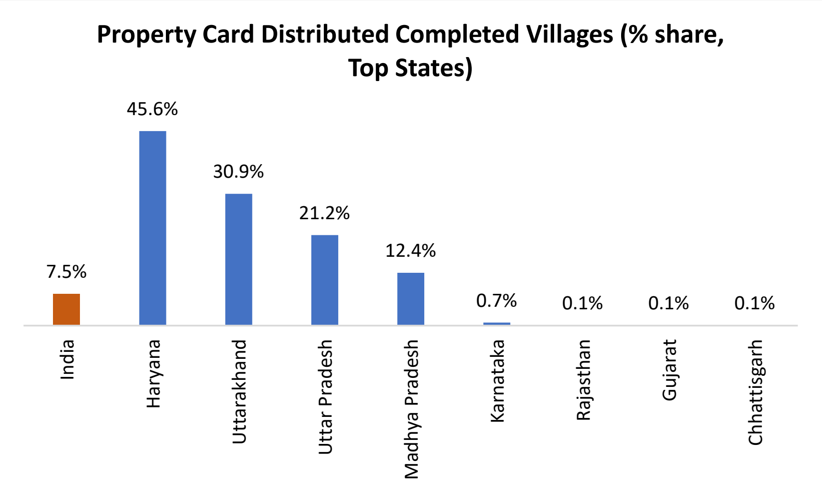
- Under SVAMITVA scheme, total of 38,381 villages (6.8% of total) have been covered so far
- It has covered maximum villages in Madhya Pradesh, Haryana and Uttar Pradesh. Of the total villages, 44.8% have been covered under the scheme in Haryana, followed by Uttarakhand (30%), Uttar Pradesh (20.8%) and Madhya Pradesh (11.9%)
- As per the scheme guidelines, a total of 88% of villages are proposed to be covered under the scheme between 2022-2025
- **Interestingly, Uttar Pradesh and Haryana have more districts where home loan disbursal has increased at faster pace that has also witnessed a surge in property card distribution…**

Villages to be completed between 2022-2025 (% share)	
State	**% of villages**
India	88.0%
Telengana	100%
Jharkhand	100%
Chhattisgarh	100%
Odisha	100%
Andhra Pradesh	100%
Arunachal Pradesh	100%
Assam	100%
Bihar	100%
Goa	100%
Karnataka	100%
Punjab	100%
Tripura	100%
West Bengal	100%
Gujarat	100%
Tamil Nadu	100%
Kerala	100%
Rajasthan	100%
Himachal Pradesh	99%
Sikkim	95%
Maharashtra	88%
Uttarakhand	73%
Madhya Pradesh	58%
Uttar Pradesh	28%

Number of Villages in which Drone Flying is completed			
Total		1,63,795	
Uttar Pradesh	72,379	Chhattisgarh	2,447
Madhya Pradesh	32,937	Himachal Pradesh	1,672
Maharashtra	23,697	Punjab	1,648
Uttarakhand	7,581	Gujarat	1,494
Haryana	6,260	J&K	1,201
Rajasthan	4,582	Odisha	895
Andhra Pradesh	2,823	Goa	410
Karnataka	2,664	Jharkhand	240



Redevelopment of existing capacity: accelerating the evolution in congested metros..

- Metro Cities, facing a crunch in land availability in better localities/prime areas that have greater connectivity and infrastructure proximity, can do well to initiate substantial redevelopment and mixed usage projects to cater to ‘walk-to-work’ model
- Redevelopment, capable of altering the real estate landscape in metro areas primarily, needs a closer attention from the policy makers. As more Indians move to middle class in terms of income, seeking ownership through better pricing powers and a young workforce joins the services heavy delivery model fuelled by a knowledge economy, demand for mixed usage housing should see a traction in select areas across geographies. The rise and rise of the gig economy emerging on the horizon should also augur well for the mixed usage housing pattern as convenience and experience of dwellers would increasingly define the urban lifescapes
- An accelerated clearance of redevelopment proposals through a ‘Single Window’ and ‘Fast Tracked’ system demands close attention of policy makers where RWAs can be encouraged to tie-up with a RERA empanelled builder to commence a rephasement of the existing built-up and enable co-creation of new configuration through enhanced infrastructure using mixed land use thus ensuring amplified density at the existing space.
- Select large redevelopment projects like Bhendi Bazaar in Mumbai or East Kidwai Nagar in Delhi are a welcome step but focus needs to be given to smaller parcels in abundance where first construction was made 50-60 years back and most are approaching their shelf-life / past their utility. Mixed usage plan should be a win-win situation for original occupants as also intending purchasers and provide a wholesome experience

PMAY has heralded in a new dawn in housing sector from 2015…..

PMAY Houses sanctioned: 123 Lakh

Close to 94 Lakh houses are either in the name of women or women have joint ownership

PMAY Total investment: INR 8.31 lakh crore

PMAY Houses Grounded: 101 Lakh

PMAY Houses completed: 61 Lakh

PMAY Central assistance approved: INR 2.03 lakh crore

PMAY Central assistance released: INR 1.20 lakh crore

Beneficiaries under CLSS: 23.97 lakh

Interest Subsidy under CLSS: INR 55,095 crore

Interest Subsidy under CLSS

EWS/LIG: 35,160 cr

MIG: 12,935 cr

(7000 cr yet to be released)

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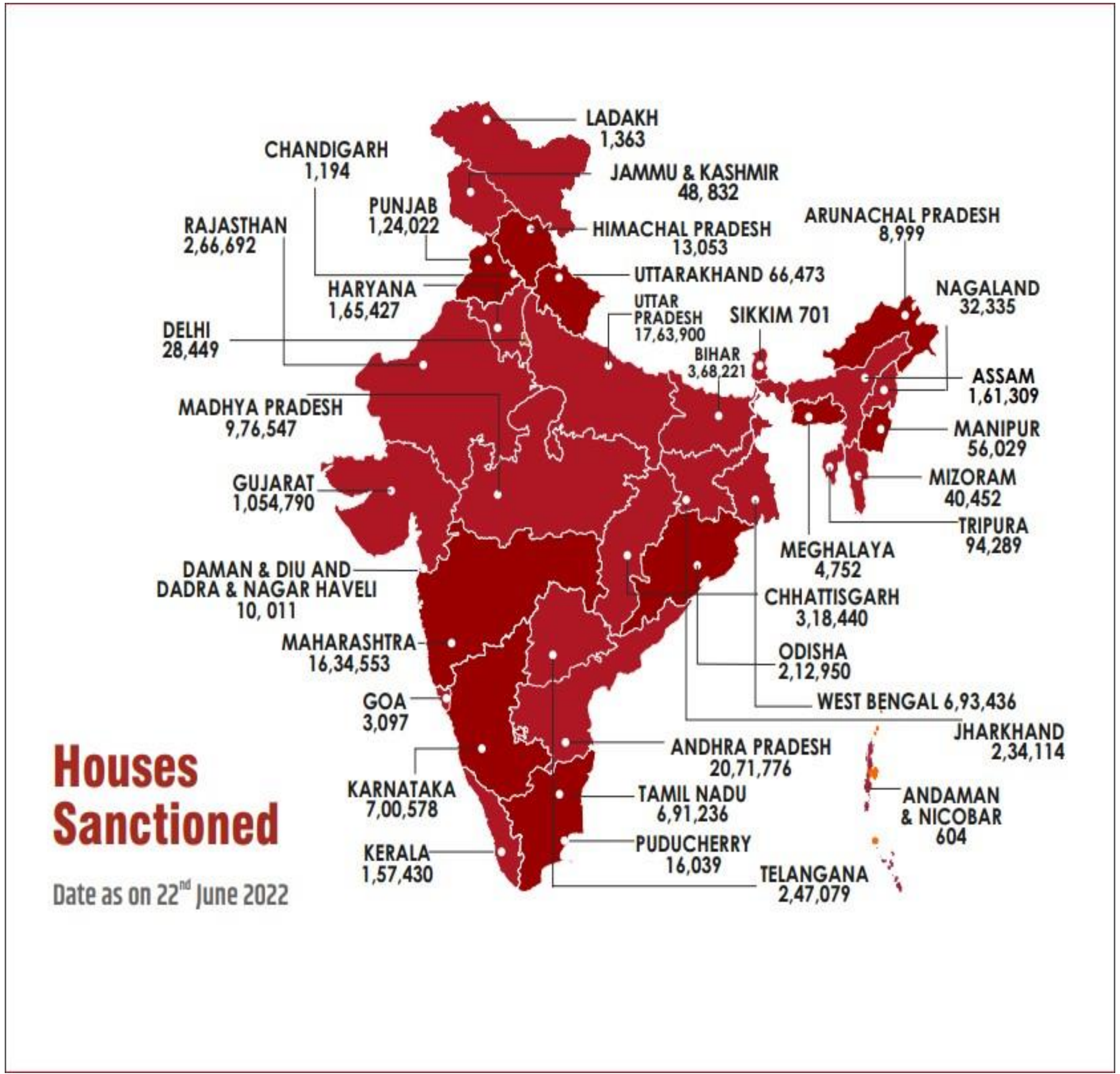
Proactive states that feature high on overall economic indicators and understand the centricity of federally sponsored schemes that can bring a sea change in the targeted as well as ancillary activities related to construction have been frontrunners in leveraging PMAY(U) to the hilt. The improvement in socio-cultural-economic landscape naturally comes as a corollary!



Data from pmay-urban.gov.in

PMAY-CLSS: Fortifying Dreams of Affordable Housing

PMAY Scheme is being implemented through the following four verticals:

1. **Subsidy for Beneficiary-Led Individual house construction or enhancement**

2. Affordable Housing in Partnership: With private sector or public sector including Parastatal agencies

3. **"In-Situ" Slum Redevelopment, with Private participation, using land as a resource**

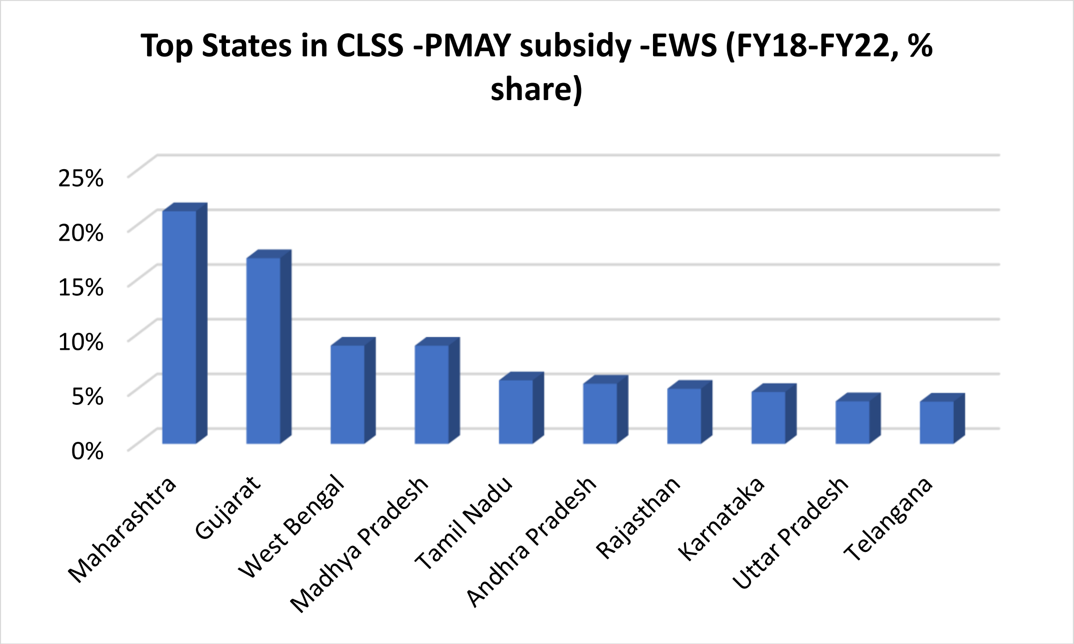
4. Affordable Housing through Credit Linked Subsidy Scheme*

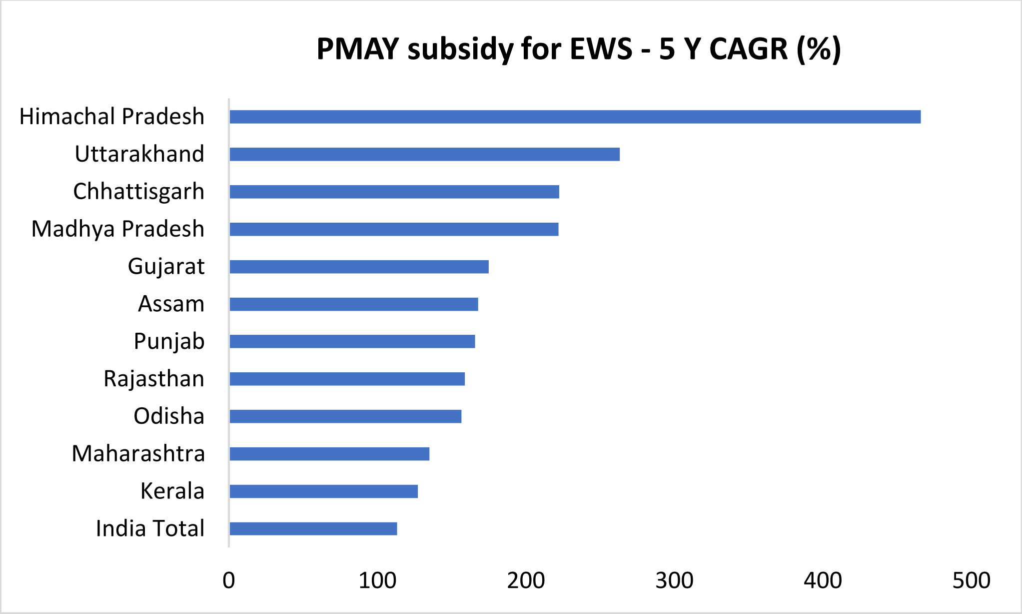
"In-situ" Slum Redevelopment (ISSR): Slum redevelopment grant of ₹1 lakh per house is admissible for all houses built for eligible slum dwellers under the vertical of In-situ Slum redevelopment using land as Resource with participation of private developers.	**Credit Linked Subsidy Scheme (CLSS):** An interest subsidy of 6.5%, 4% and 3% on loan amount upto ₹6 lakh, ₹12 lakh and ₹18 lakh are available for the eligible beneficiaries belonging to Economically Weaker section (EWS) / Low Income Group (LIG), Middle Income Group (MIG)-I and Middle-Income Group (MIG)-II respectively seeking housing loans from Banks/HFCs.
Affordable Housing in Partnership with public or private sector (AHP): Central Assistance of ₹1.5 lakh per EWS house is provided by Government of India in projects where at least 35% of the houses in the projects are for EWS category and a single project has at least 250 houses.	**Beneficiary-led individual house construction or enhancement (BLC):** Under this vertical, Central Assistance of ₹1.5 lakh is available to individual eligible families belonging to EWS categories.

Data from pmay-urban.gov.in

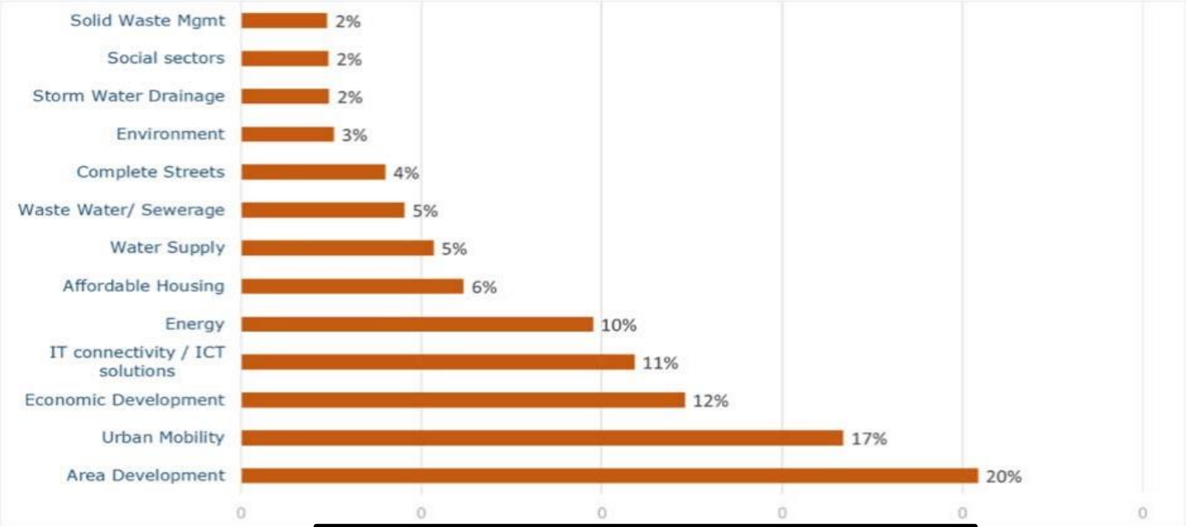
States' performance in CLSS claimed under PMAY(EWS)

- We have analyzed the status of State-wise Credit Linked Subsidy Scheme (CLSS) - PMAY subsidy given to EWS category over the last 5 years (FY18-FY22). Overall, PMAY subsidy has been maximum in case of Maharashtra, followed by Gujarat and West Bengal
- However, when 5 Y CAGR (FY22 over FY18) is looked at, Himachal Pradesh has done exceedingly well followed by Uttarakhand and Chhattisgarh

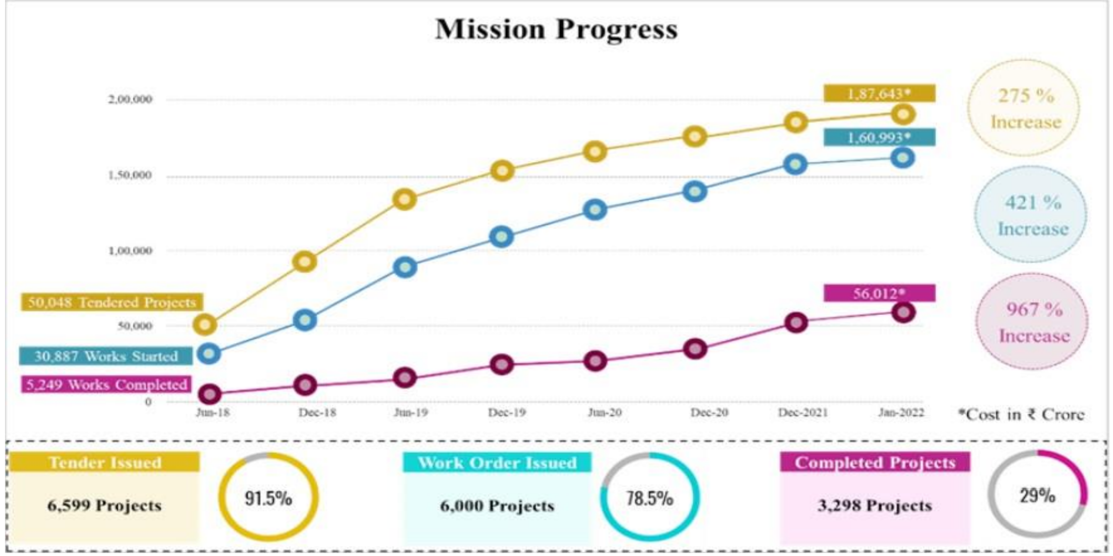




SMART CITIES PROJECT: Force Multiplier to usher in Better Urban Infrastructure



Proposed project investment of Rs 2.05 lakh crore



THE MORTGAGE BUBBLE OF CHINA: RERA GUIDELINES IN INDIA ACTED AS A SHIELD

- The *Evergrande* crisis in China redrew the attention to lofty, unconnected dots marshalling the real estate sector, post the Great Financial Crisis that had shaky mortgage debt at its heart. As Evergrande, one of the largest RE developers in China defaulted on its debt obligations with unfinished/unsold inventory piling up, the threat of a Domino effect engulfing the funds flow to real estate sector globally descended on the horizon. In restricted default, the Company was accused of utilizing retail financial investments to plug funding gaps through hazy accounting practices. A contagion effect was on the anvil given the Chinese regulator's penchant to cool off the highly indebted property market since 2020 (the 'three red lines' rule endeavoured to control the sectoral leverage by limiting the developers' borrowing on three metrics; debt to cash, debt to equity and debt to assets)

- Chinese banks are staring at mortgage losses estimated close to US$350-500 billion in a worst-case scenario as confidence plunges in the nation's property market and authorities struggle to contain deepening turmoil. A spiralling crisis of stalled projects has weathered the confidence of homebuyers, triggering a clarion call from homebuyers to boycott mortgage payments across the mainland and putting forth emergence of broader systemic risks. A natural corollary now is not if, but how much it will batter the nation's banking system in coming days as there are reports of banks freezing withdrawals from retail customers and home buyers stopping mortgage related payments for unfinished projects with little chances of completion.

- China's top 100 developers saw home sales slumping further in July 22, indicating a widening mortgage boycott crisis emerging around the country that has further weighed on buyer confidence. Combined contract sales have plunged nearly 40% from a year earlier to ~US$78 billion (data from China Real Estate Information Corp.) as demand remained stagnant amidst an economic downturn with zero Covid policy and dwindling exports thwarting counter efforts from government.

PLUGGING THE LOOPHOLES OF RERA TOWARDS ENSURING A BUYERS-IN-CONTROL ECOSYSTEM

- The RERA act of 2016 was a giant step by the Central Government to ensure transparency while bringing enhanced accountability from real estate developers to provide a safe and holistic environment to purchasers while attracting greater funds flows to the sector that has second largest job creation watermark

- Land being a state subject, each state had to enact the concerned law individually and certain states reportedly relaxed select provisions of the act thereby somewhat watering down the essence of the act towards ensuring a ‘Buyers-in-Control’ mechanism.

- The act mandates providing essential details of all eligible project (land proposed to be developed exceeding 500 sq. metres or number of apartments more than 8) on the respective RERA site. However, the funding pattern/tie-up with creditors (existing/proposed) for the development is not captured. Incorporating a provision where the submissions towards status of timely completion of project is duly vetted by the financing agency can enhance the confidence of the buyers multi fold

- At present, there is no system in place to know if a particular developer (unlisted) is over leveraged or not. A Unique Identification Number allotted to each person desirous of real estate development can plug this anomaly and safeguard the system

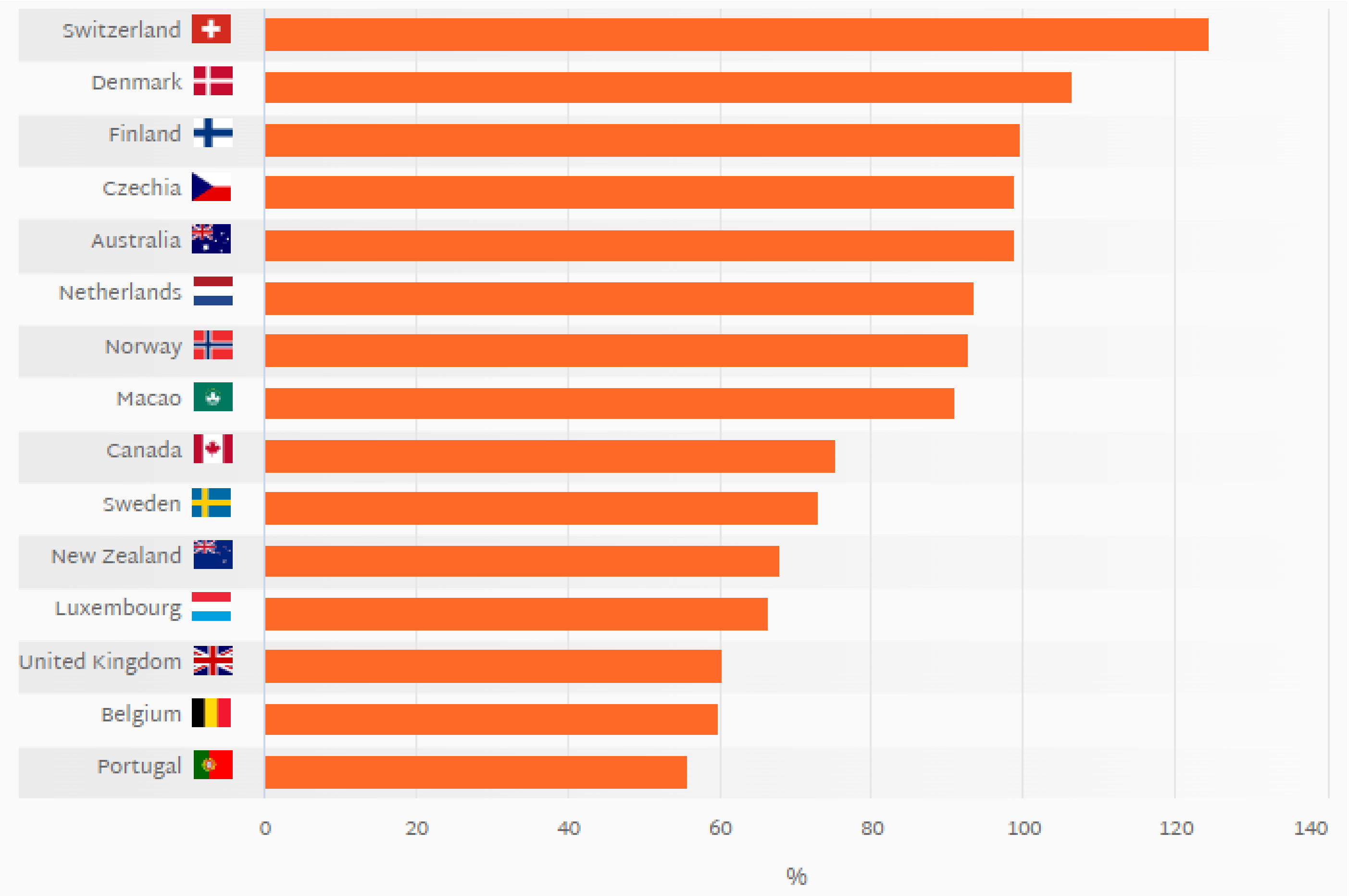
- While RERA can only capture eligible projects above a certain threshold, it is of utmost importance to mandatorily register all projects on RERA to create a database for understanding the evolving patterns of developmental activities in a select locality/city and modelling buyers’ behavioural pattern that indicates the economic well being of a society at large. Towards this, Urban Municipal Bodies can be entrusted the task to create a vibrant, dynamic database going forward and assess the demand/supply statistics

Moving towards doubling the Rs 24 trillion home loan market in India……

- India's home loan market, currently valued at ~Rs 24 trillion is expected to double in the next 5 years, mirroring the overall trend in the country's aspirations to become a US$ 5 trillion economy by then

- The key ratio indicating dynamic mortgage penetration and robust lending practices i.e. Mortgage to GDP ratio must rise commensurately **from current ~11%**

- All the current steps can make mortgage finance accessible to majority of population… House & Home for all !



Mortgage Depth is the outstanding mortgage debt relative to GDP and gauges the depth of mortgage markets by focusing on the total volume.

Graph source Helgi library

thank you

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