India

Macroeconomic Background

On the back of economic reforms undertaken in 1991, India has grown at an average rate of over 5% through the nineties peaking at about 8% in FY04. It is currently the fourth largest (in PPP terms) economy in the world with GDP output at USD 554 billion. India's services led-growth strategy is well documented and is a departure from the rest of Asia's manufacturing-led model for growth. Both domestic and global demand for India's services remains robust with globally competitive firms emerging from the country's historically protected private sector. With still much scope for reform, India's healthy progress in liberalization, private sector-led development, and newly established political support (irrespective of the ruling party) for economic and structural reforms suggest that India could well be setting up the necessary conditions to support the type of long-term growth path over the next 2-3 decades. Inflation through the nineties hovered between 7% and 13%; however, that has been reigned in and is currently about 5%. Interest rates have substantially fallen from close to 18% in the mid nineties to about 7% last fiscal. Forex reserves are about USD 135 billion and covers 12 months of imports.

Demographics

The population of India is over 1 billion and accounts for one sixth of the entire world's population. The population is second only to China with one quarter of the world's youth living in India. 54% of the Indian population is below the age of 25. In 2001 the productive population (age 25-44) was 278 million which, by 2013, will grow to 369 million; a growth of 33%. This explosive growth will result in higher demand for housing loans in the foreseeable future.

According to the 2001 Census of India the total number of households in India is 191 million, up from 147 million in 1991. Much in line with world trends of falling household size, in India, the average household size has fallen from 5.71 in 1991 to 5.34 in 2001. This trend is expected to continue as individuals migrate to urban centres in search of work, coupled with movement away from the joint family system to single family households that is further accelerating lower household sizes.

Housing Market

The Indian housing industry is highly fragmented, with the unorganized sector, comprising small builders and contractors, accounting for over 70% of the housing units constructed and the organized sector accounting for the rest. The organized sector comprises large builders and government or government-affiliated entities.

The housing market witnessed a frenzied boom in the early nineties on the back of a booming stock market and a liberalization process that was kicked off in 1991. The stock market and real estate markets crashed in quick succession - 1994 and 1995 respectively, followed by a prolonged period of about 8 years of little or no appreciation in real estate. The crash, accentuated by high inflation and high interest rates, not only kept speculative inflows out but also kept genuine home seekers at bay. However, some reversal in that trend is being witnessed as the past 2-3 years has seen real estate prices inch up on the back of demand led by low interest rates and the software services sector boom currently underway.

According to the Census of 2001 there were 249 million occupied houses in total, up from 108 in 1991, representing a CAGR of 8.71%. In 2001 there were 178 million in rural areas and 71 million in urban centres. The tenth Five Year Plan document on urban development has estimated an additional requirement of about 4.5 million houses each year during the Plan period (2002-07). This is in addition to the current shortfall of about 19.4 million units compared to the shortfall of 18.5 million in 1991. Out of the total shortfall of 19.4 million, 14.9 million is in rural areas and the balance 4.5 million in urban centres. Total new house completions in FY04 were estimated at 4.5 million units.

Housing Finance

The value of total residential mortgage debt moved up from USD 1.84 billion in 1994 to USD 12.26 billion in 2004; a CAGR of 21%. The housing finance market has recorded robust growth in the last 5 years, clocking an annual growth rate of about 40% between FY99 and FY04. Residential mortgage debt as a percentage of GDP was a mere 0.58% in 1994 which has moved up to 2.21% in FY04, still miniscule when compared to about 45% in the EU, 70% in the US and upwards of 30% in East Asian economies.

Interest rates on housing loans have fallen from a peak of 17% in 1996 to 7.5% last fiscal making owning a home more affordable. This combined with increasing loan tenures, increasing loan-to-value ratio and a rise in the installment-to-income ratio are precipitating high growth rates in the housing finance market.

The organized lenders in the housing finance industry, comprising 30% of housing units constructed, are currently concentrated in the urban markets, with a greater presence in the major metros and Tier 1 cities. They are however, moving to the Tier 2 cities and smaller towns but are yet to venture into the rural markets.

Also, salaried borrowers constitute the bulk of the clientele for the financier in comparison to the self-employed borrowers, who constitute a miniscule proportion. As a segment, the self-employed category is much bigger than the salaried segment, but the organized lenders have, historically, been concentrating on the salaried borrowers due to the lower risks associated with them.

Traditionally housing finance was dominated by a handful of private sector institutions. These Housing Finance Companies (HFCs) commanded 70% market share in FY99, which has subsequently fallen to 50% in FY04 as a direct result of policy changes that permitted the entry of banks into this industry. Banks now control 40% of this market and continue to show explosive growth on account of government policy that categorizes this lending under priority sector lending and the low NPA levels experienced in this industry.

Government Policy & Objectives

Public investment in housing according to the Sixth-Five-Year-Plan has grown from USD 1 billion to USD 90 billion in the Tenth-Five-Year-Plan; a CAGR of 45%. Prior to that, the Government of India was generally not supportive of housing finance through its policies. This however, has changed. Besides a larger allocation of public funds, fiscal incentives and tax rebates on principal repayment and Equated monthly installments (EMIs) have reduced the tax adjusted EMI to income ratio that is further tilting the buy versus rent decision in favour of buying.

A welcome move recently announced by the government is that 100% Foreign Direct Investment (FDI) in India would be allowed in townships, housing, built-up infrastructure and construction-development projects, which could include housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure. However, a lot remains to be achieved with regard to issues surrounding regularization of land records, urban land ceiling act, rent control act etc, that continue to stymie the explosive growth being witnessed in the housing finance market.

Summary Data for India FY94-FY04

		FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04
Real GDP Growth	%	5.90	7.25	7.34	7.84	4.79	6.51	6.06	4.37	5.78	3.99	8.51
Unemployment Rate	%	4.06	3.96	3.98	4.10	4.10	4.03	4.06	4.06	3.90	3.86	n.a.
Consumer Price Inflation	%	7.50	10.10	10.20	9.40	6.80	13.10	3.40	3.80	4.30	4.00	3.90
Residential mortgage debt outstanding	USD bn	1.84	2.10	2.13	2.24	2.59	2.94	4.28	5.56	6.88	8.89	12.26
Residential debt / GDP Ratio	%	0.58%	0.61%	0.58%	0.56%	0.62%	0.67%	0.91%	1.19%	1.45%	1.74%	2.21%
Residential mortagage debt per household	USD	11.58	12.85	12.67	12.98	14.63	16.17	22.87	28.98	35.79	55.88	77.08
No. of Households *	mn	159	163	168	172	177	182	187	192	192	198	203
Home ownership rate *	%	86.42	86.46	86.50	86.54	86.58	86.62	86.66	86.70	86.74	86.78	86.82
House Price Index		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Annual house price growth **	%	n.a.	n.a.	4.10	4.10	15.20	19.20	2.80	3.90	7.90	2.50	2.30
Typical LTV	%	n.a.	n.a.	n.a.	n.a.	n.a.	58	n.a.	n.a.	63	n.a.	68
Number of dwellings (residential & non	mn	210	215	220	226	231	237	243	249	255	261	268
Housing completions	mn	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.3	n.a.	4.5
New Home Sales	mn	n.a.	n.a.	4.00	n.a.	n.a.	4.30	n.a.	n.a.	4.80	n.a.	n.a.
PLR	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12-12.5	11-12	11-12	10.75-11.50	10.25-11
Interest rates on Housing Loans (indicative only)	%	15.50	17.00	17.00	16.00	14.50	13.50	13.00	12.15	11.35	9.85	7.65
MBS (home loan securitization)***	USD bn	-	-	-	-	-	-	-	-	0.05	0.31	0.52
Exchange Rates		31.37	31.40	33.45	35.50	37.16	42.07	43.33	45.68	47.69	48.40	45.97

* FY02, FY03 & FY04 figures are estimated

** Figures pertain to Q4 of the financial year (Jan, Feb & March)
*** MBS market did not exist prior to FY02

Sources: IMF, ABD, RBI, Census 2001, Cris Infac.

References & Data Sources

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