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## Market Based Experiences in Low Income Housing **India**

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This document provides an outline of a presentation and is incomplete without the accompanying oral commentary and discussion.

# Low Income Housing in India

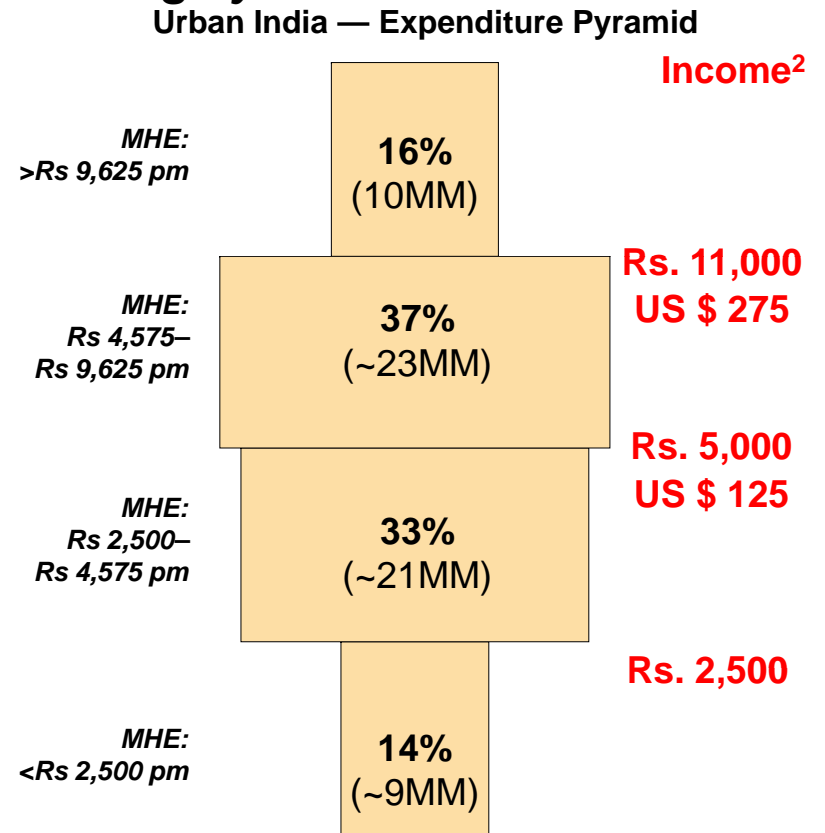
## Current Housing Finance and Construction Activity

*Vibrant housing market in urban India; housing finance has grown at **over 36% CAGR** for the past 13 years. However, this activity is concentrated on the upper income groups — **the low income segments are largely un-served***

**Typical Low-end housing available in urban markets**

- Area of city<sup>2</sup>: Within **an hour** from the city centre
  - Close to primary, secondary schools, healthcare centre and market place
  - Well connected to city by bus/train linkages
- Typical complex would comprise **3 to 5 buildings with 4 to 8 flats/ floor and 4 floors**
  - Regular water and electricity
  - No lifts and single set of staircases
  - Complex would be fenced by a compound wall with shared open spaces including garden and access to play area for kids
- Each flat has a super built up area of **450-550 sq.ft.**
  - 1 BHK with an attached toilet and bathroom
  - Well painted walls and good interiors
  - Rs 400-500 per month as maintenance charges

**Cost : Rs 450,000 to 500,000**



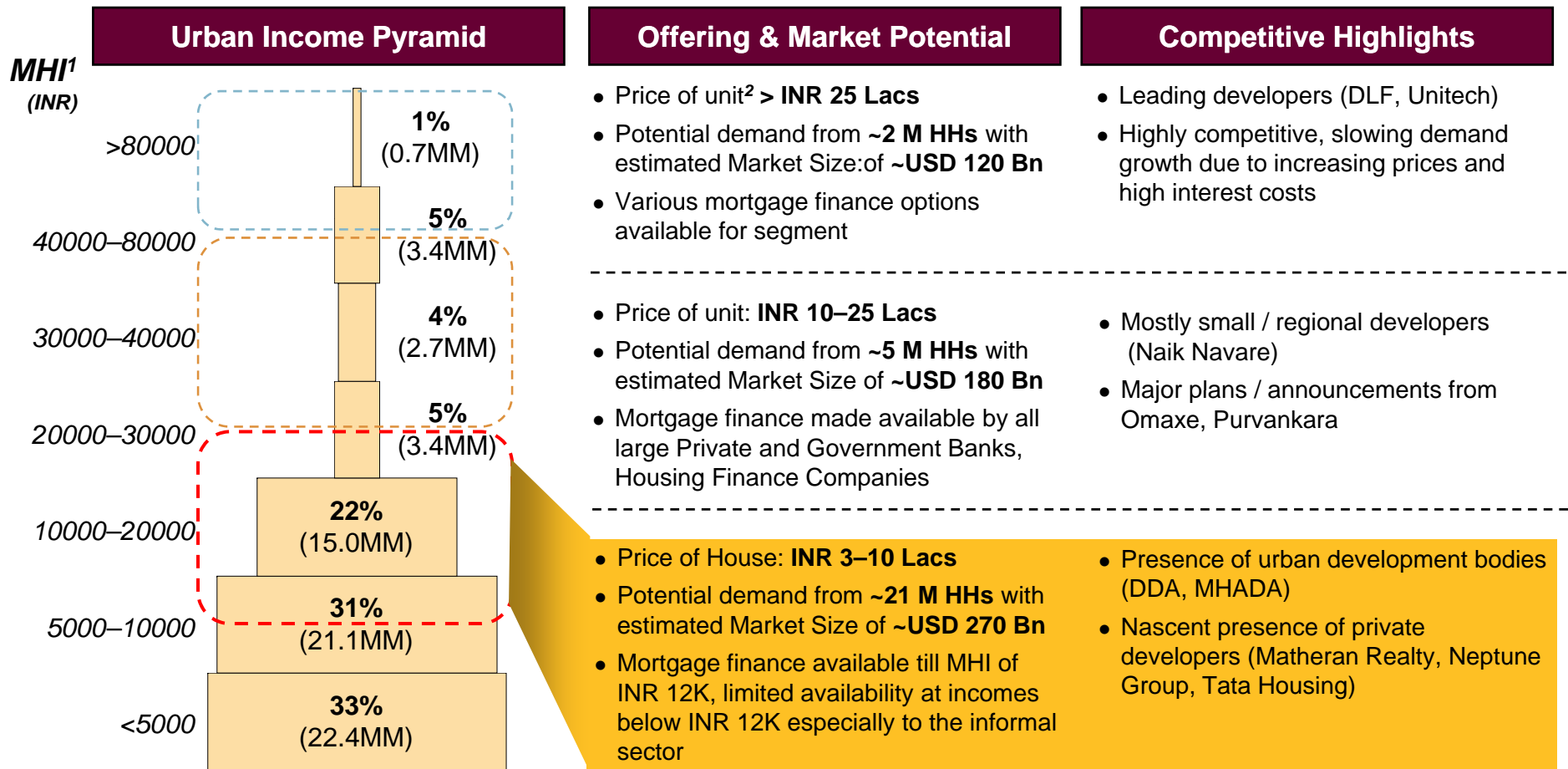
**Property rates across various cities suggest that it should be commercially viable to build affordable housing in the suburbs for low income customers in urban India**

# Low Income Housing in India

## Magnitude of Demand

The low-income housing segment in India, catering to households with monthly income of INR 7,000 – 24,000, is estimated at 21 Mn households and USD 270 Bn is largely underserved and uncontested

Low-income segment



Note: <sup>1</sup> Monthly Household Income; <sup>2</sup> Affordability defined as households which have EMI / MHI Ratio of 40% of a Home loan which has a 20% down payment on an Home value, EMI level of INR 1,200 per Lac (at 12% interest for a 15 year loan)

Source: NHB Trends in Housing; CRIS Infac Report; Monitor Research

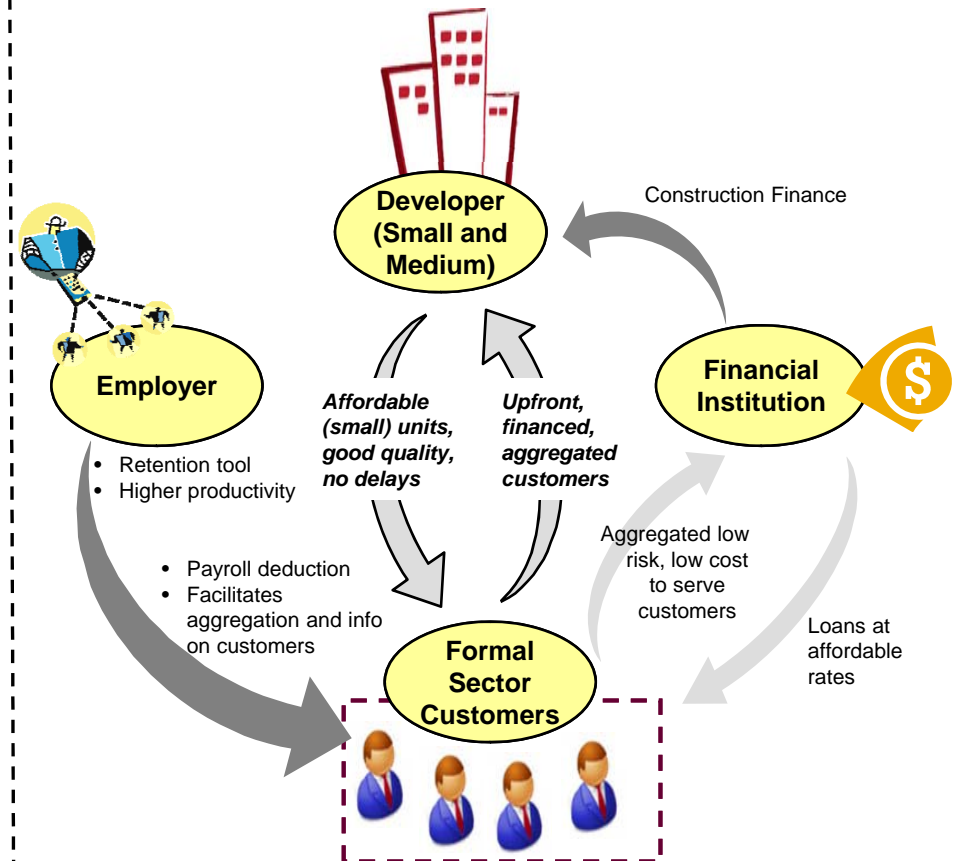
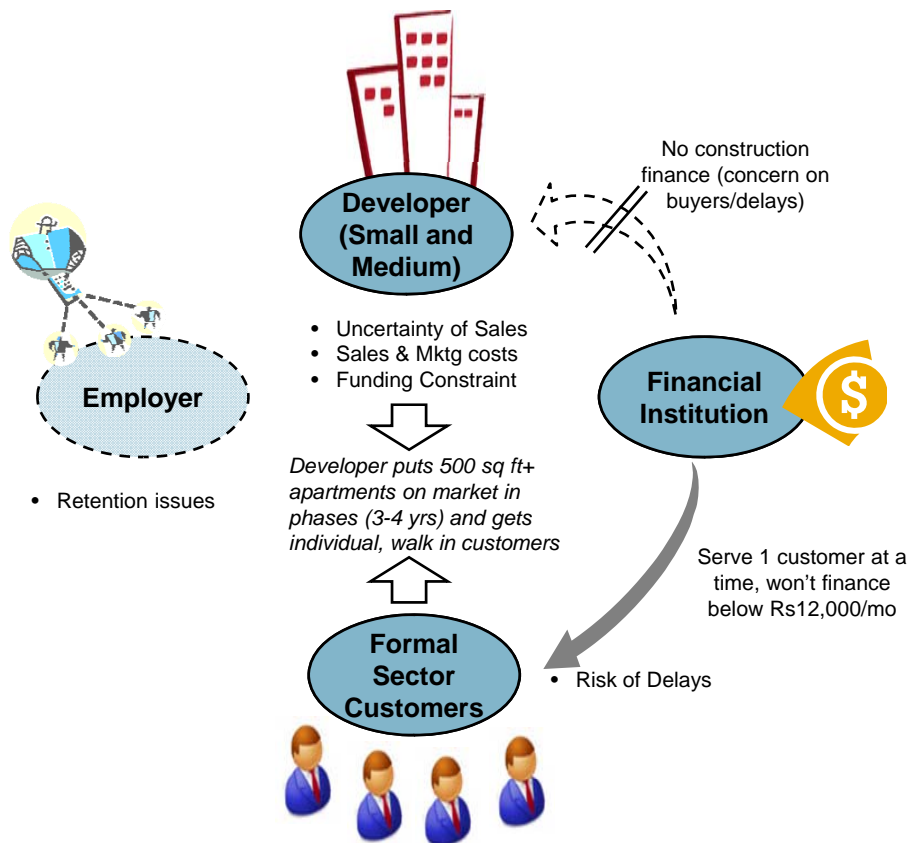
# Financing models

## Organized Salaried Sector

The new product for those employed in formal sector settings required several reconfigurations of existing products and practices, with a direct link to customer employers

### Current bottom of the market (12-20k)

### Alternative Model – serves 6k-12k market



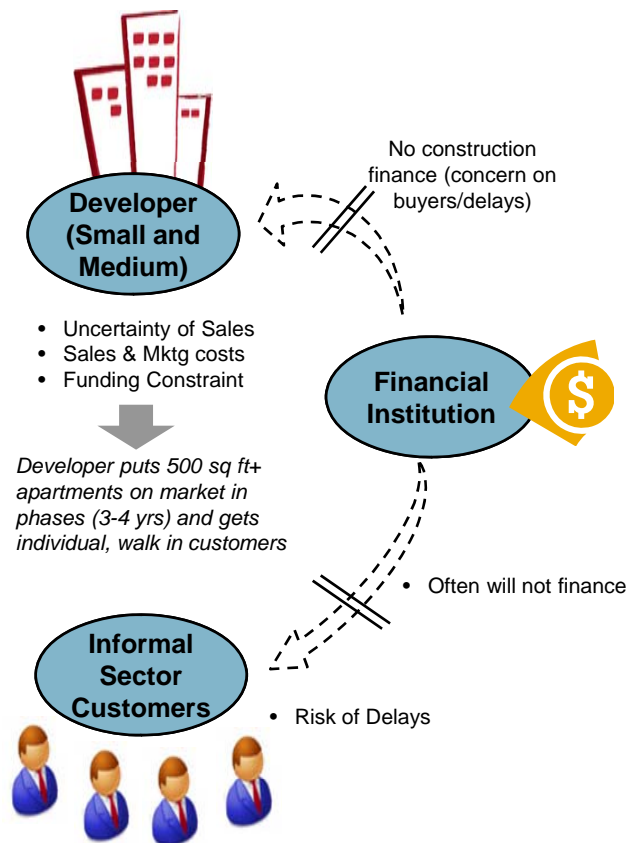
**Opportunity to set standards:**  
Architectural Design, Maintenance, Consumer Education

# Financing models

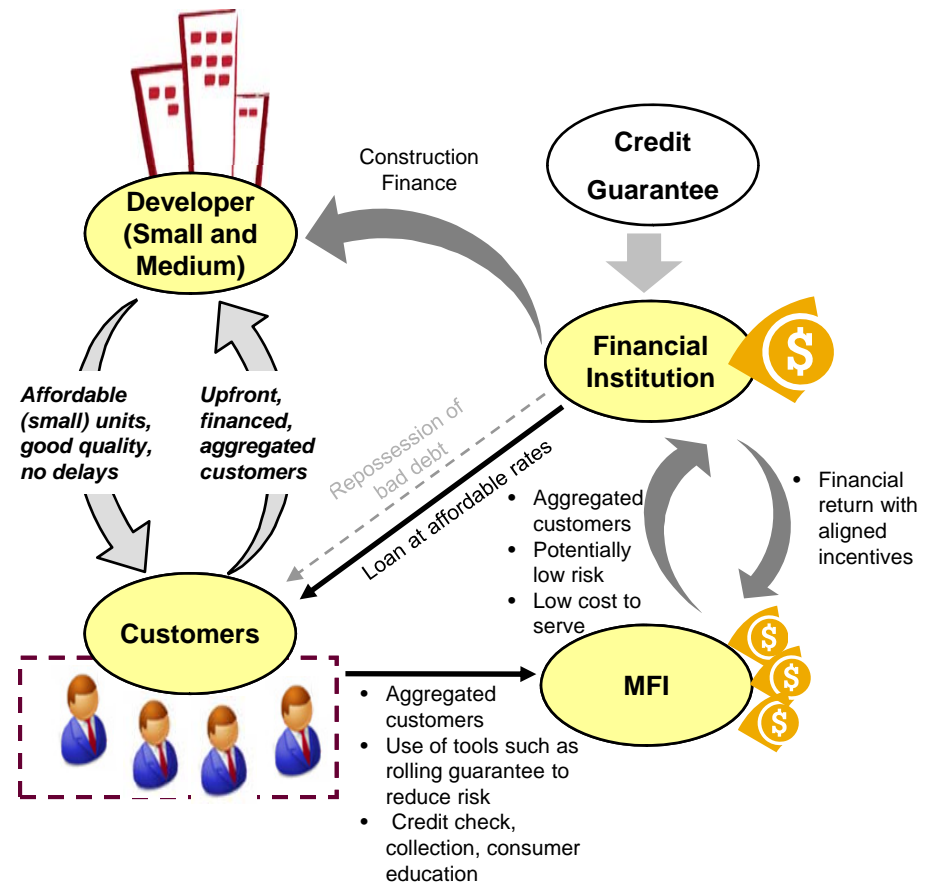
## Informal Sector using MFIs

The new product for those employed in informal sector settings may require the introduction of MFIs as an aggregator and potentially a credit guarantor to reduce financing risk

### Current bottom of the market (12-20k)

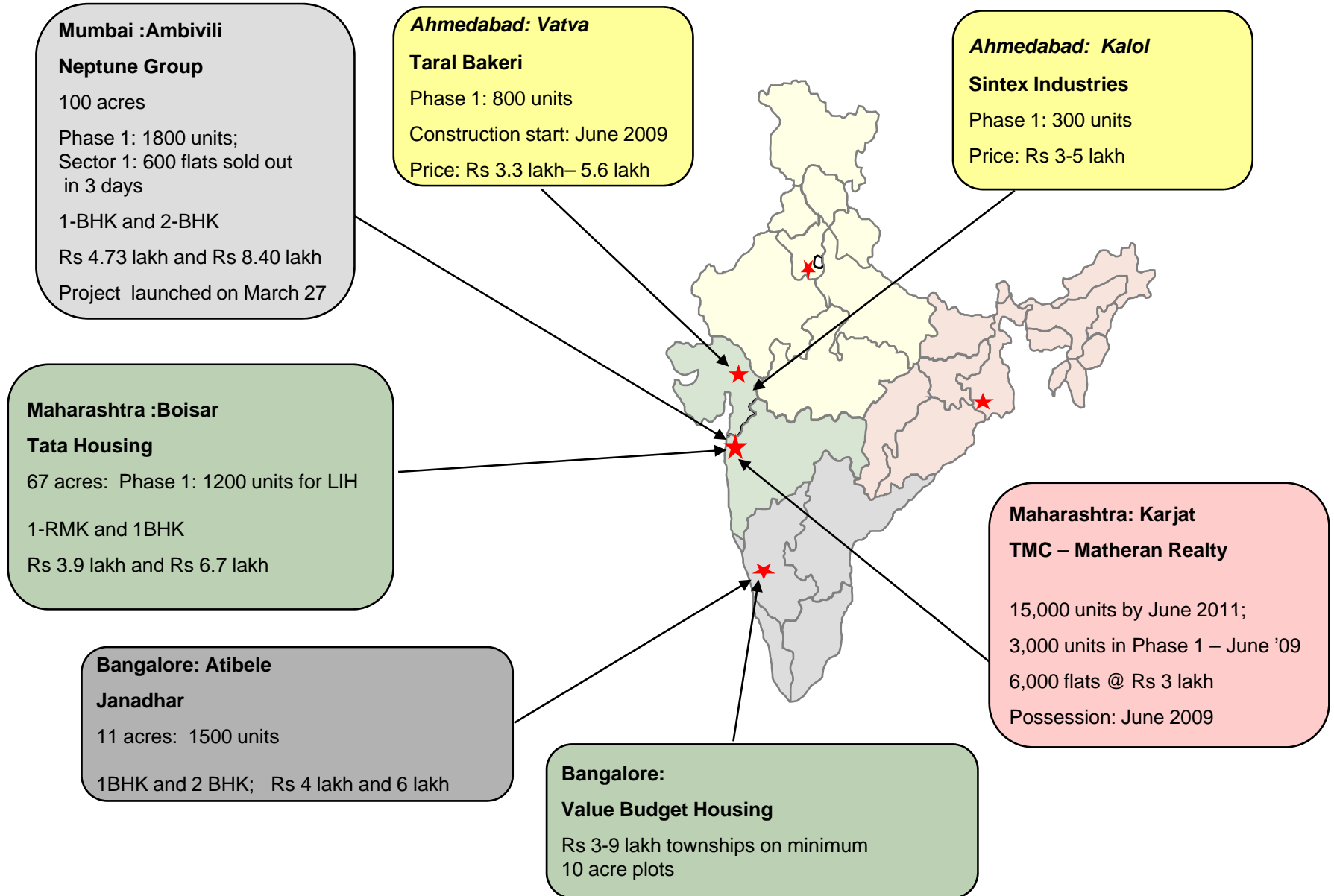


### Alternative Model – serves 6k-12k market



# Market demonstration of Demand

## Private sector projects across India



# Low Income Housing as a Driver for Economic Growth

## “This segment is not sub-prime” – India v/s the USA

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### USA

- Customers had poor employment record – loans extended without due consideration to ability to pay (basis employment history)
- Cost of asset disproportionately high compared to replacement cost; this is attributed to the real estate asset bubble in the US – hence high risk of payment default

• *Outcome: Sub-prime Defaults and Foreclosures*

### India

- Target customers have regular employment, albeit with low income – with an unproven credit record which needs to be tested
- In the low income segment, cost of asset closely linked to cost of land (esp. in peri-urban areas) leading to high correlation between cost of asset and replacement cost; and hence ***low risk of payment default***

• *Outcome: Untested, relatively low-risk segment with immense business potential*