HOUSING FINANCE SYSTEMS IN METROPOLITAN AREAS OF INDIA.

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CONTENTS.

PROGRESS OF WORK.

The study on Housing Finance System in Metropolitan Areas encompasses the following areas of work.

1. Role of Institutional housing finance in metropolitan areas of Ahmedabad, Bombay and Indore.

   In the first progress report a detailed account of institutional finances for housing in three metropolitan areas was presented. The second report gave details of a non-profit organization's Co-operative Bank's role in housing finance.

   The relevant chapters in this report attempt to examine the equity aspect of institutional lending, in terms of the income levels of the beneficiary. Information on a few non-formal financial institutions is also appended to this chapter.

   For the fourth and final report, in addition to the synthesis of the above, results of the on-going work related to analysis of socio-economic and housing characteristics of borrowing and non-borrowing households is planned.

2. Private Producers in Housing:

   The study proposal had committed on assessing the role of private producers in Ahmedabad Metropolitan area. This chapter, in addition to the role of the private sector in Ahmedabad, also provides brief descriptions of Bombay and Indore.

3. Land Development in Indore:

   The first report provided analysis of preliminary results related to land servicing and development in Ahmedabad and Indore. The second report had essentially dealt with the description of land developing in Ahmedabad. In this report, the efforts of land development by the public agency in Indore and the role of private sector are discussed.

4. Housing Upgradation in Bombay:

   The third report provided a detailed analysis of housing upgradation in Ahmedabad. This chapter describes the efforts of Bombay Housing and Development Board towards repairs and reconstruction work in Bombay.

   Analysis is underway on a non-profit organization's involvement for slum upgradation in Bombay. Results of these will be presented in the Fourth Report.

Chapter One.

INSTITUTIONAL HOUSING FINANCE IN METROPOLITAN AREAS.

A recent estimate of the National Housing Bank places the share of institutional housing finance in India at about 12 percent of the total housing investments in the year 1987-88. If the House Building Advances (HBA) by public and private sector employers are added, it is likely that these extent of formal financing of housing would be of the order of 20 to 22 percent of the total investments.

The flow of finances from formal sector to the consumers for Ahmedabad, Bombay and Indore have been presented in the first report. In this report we attempt to refine these estimates, look at the income groups to whom these finances are made available and present some more information on non-formal sources of finance.

Equity in Housing Finance:

It is asserted that housing finance from formal institutions is generally made available to the upper income households. We attempt to look at this aspect from (a) the information made available by institutions, and (b) examine the household survey results.

Institutional flows to different income groups:

There are inherent difficulties in estimating the income levels of borrowers. Firstly, the housing finance institutions are reluctant to furnish information on income levels of their borrowers. (as in the case of HDFC). In certain HFIs, the income levels of the borrowers are just not available (as in the case of Co-operative Housing Finance Societies). Secondly, when the finances are targetted to a specific income group, as in the case of Public Housing Projects funded by HUDCO, it is often difficult to ascertain the income levels of the final beneficiary, since houses are often resold.

Despite these limitations, an attempt is made to identify approximate share of finances to various income groups. It is assumed that (a) for the public housing projects, the finances reach the intended target groups, (b) for HFI's, the of loan amounts are representative of clients' income levels and (c) for HBA by employers, the occupational distribution within the firm (Managerial, Clerical and Sub-ordinate staff) is akin to income distribution.

Table 1.1

Ahmedabad (1985-86) Institutional Finance for Various Income Groups.

	Share of various income groups				
	EWS	LIG	MIG	HIG	Total lending (Rs. in lakhs).
Monthly Income(Rs)	700	700 to 1500	1500 to 2500	2500 +	
1. Public Housing Agencies.					
(a) Gujarat Housing Board	2.0	56.0	42.0	-	590
(b) Slum Clearance Board	53.0	47.0	-	-	257
(c) Gujarat Rural Housing Board	20.0	80.0	-	-	10
					857
2. Finance Institutions.					
(a) H D F C	-	15.0	35.0	50.0	170
(b) Gujarat Co-op Housing Finance (84-85)	-	25.0	50.0	25.0	1560
(c) LIC (OYH)	-	10.0	65.0	25.0	49
					1779
3. HBA by Employee.					
(a) Commercial Banks:					
S.B.I.	-	28.0	65.0	7.0	177
Bank of India	-	10.0	69.0	21.0	163
Central Bank	-	12.0	66.0	22.0	103
Other Banks	-	12.0	66.0	22.0	1100
					1543
(b) Co-op. Banks	-	7.0	48.0	45.0	109
(c) Public sector Organization	-	10.0	60.0	30.0	100
(d) Private Sector	-	-	60.0	40.0	50
					1802
4. Provident Fund.	-	10.0	60.0	40.0	313
Total..					4751

Based on the methodology and estimates of Ahmedabad, presented in Table 1.1, we have derived estimates of flow of finances to various income groups in Bombay and Indore. The comparative picture that emerges is as follows:

Table 1.2

Share of Formal Housing Finance for various Income Groups in the Three Cities.

	Share of income groups				
	EWS	LIG	MIG	HIG	Total (Rs. in lakhs)
Monthly income (in Rs).	700	700 to 1500	1500 to 2500	2500 +	
Ahmedabad.					
a. Public Housing	17.5	53.6	28.9	-	857
b. Financial Inst.	-	23.5	49.0	27.5	1779
c. HBA	-	12.6	64.6	22.8	1802
					4438
Indore.					
a. Public Housing	12.5	37.5	42.6	7.4	273
b. Financial Inst.*	-	21.0	56.0	23.0	432
c. HBA*	-	12.0	65.0	23.0	660
					1364
Bombay.					
a. Public Housing**	23.0	33.0	31.5	12.5	2807
b. Financial Inst.*	-	13.5	45.5	41.0	1535
c. HBA*	-	10.0	50.0	40.0	4800
					9142

Notes : 1. The above estimates do not include advances from Provident Fund.

* Distribution across income group is estimated on the basis of Ahmedabad results and a few spot surveys in Indore and Bombay.

** Includes finances for repairs and reconstructions.

Public Housing funds, largely coming from HUDCO, are the only finances made available to the very poor families in each city under study. Between 50 to 70 percent of finances through public housing is targetted for EWS/LIH households. On the other hand, 23 to 40 percent of financing by institutions is for the higher income group households. Bulk of the finances from the institutions are provided to upper income households.

Household Survey Results.

Lal (1984), in his study of 720 households in five cities, indicates that only 20 percent of the surveyed households had access to formal housing finance. Income groups of the respondents reveal that among the poor households (income less than Rs. 5000 per annum), only 8 percent of the household obtained housing finance from the formal institutions. A majority of them took loans from employers or the provident fund. About 20 percent of the families earning Rs. 5,000 to 15,000 per annum, and 30 percent of families earning Rs. 15,000 to 35,000 per annum obtained housing finance from the formal institutions.

Table 1.3.

Share of Institutional Finance by Inceome Groups.

Annual Income	Share of funds			
	All formal	SFI HDFC	Bank LIC	Employer P.F.
0 to 5000	1.73	2.01	1.09	2.01
5000 to 15000	26.86	26.00	18.95	31.32
15000 to 35000	53.77	63.42	53.96	51.55
35000 to 50000	11.60	3.20	13.90	12.22
50000 to 100000	5.18	5.28	9.36	2.89
100000 +	0.8	-	2.73	-
	(100.00)	(100.00)	(100.00)	(100.00)

Source : V D Lal (1984), Housing Finance in India, SDS, New Delhi.

Mehta and Mehta, (1987), in their study of 933 households in Ahmedabad Metropolitan area, on the other hand indicate that nearly 30 percent of the surveyed owner households had borrowed from formal institutions. The bulk of the borrowing households had obtained funds through the Co-operative Housing Finance Sector. However, amongt the poorer households (monthly incomes less than Rs. 700/-), only 7 percent of the households had borrowed finance from employers, through provident funds and/or house building advances. (It must, however, be noted that for housing upgradation, nearly 20 percent of the households had financed it through loans or advances from employer.

Thus, access to institutional finance is largely available to the middle and upper income households. We have reframed Lall's data of household survey to financing agency wise disbursements to various income groups. Table 1.3 above, suggests that bulk of the formal sector funds go to the lower middle income groups. (The income groups Rs. 5000 to 30000 per annum accounts for nearly 80 percent of the total formal sector lending in the five cities).

Housing Finance for the Poor.

Housing finance for the poor households is thus tied up with public housing programmes in the three cities. The poor households have little choice in exercising their options regarding the housing environment they wish to live in. And since the public housing efforts constitute no more than 20 percent of the accretions to the housing stock, it is apparent that the poor household's demand for housing finance remains largely unfulfilled.

The poor households employed in public sector enterprises, particularly Banking sector, are relatively better placed to obtain House Building Advance. (of the total estimated HBA to employees in Ahmedabad, the Banking sector accounts for 85 percent of advances). The employees in other organizations appear to have a limited access to housing finance, except from the Provident Funds.

House Building Advance (HBA) by Public Sector.

Public sector employees are granted House Building Advances as per the budgeted amount for each department or organization. For example, the Seventh Five Year Plan for Gujarat State allocated Rs. 680 lakhs for HBA. In a few enterprises sponsored by Government, seed money is made available for HBA for initial few years. Subsequently, the loan repayments by employees towards HBA are utilised for further housing advances.

The terms and conditions governing the grant of HBA in a Central Government organization was as below:

i. **Eligibility:**

All the permanent employees and those of the temporary employees who have completed 10 years of continuous service are eligible for grant of House Building Advance.

For becoming eligible for grant of HBA, neither the employee nor the employee's family members (wife/husband/minor children) should own a house in the town/urban agglomeration where the house is proposed to be constructed/acquired with the help of HBA from the Government. The cost of the house (excluding the cost of the land) as per the existing rules should not exceed the cost ceiling limit indicated below:

ii. **Basic Pay.**	Limit on the cost of house.
(a) For those drawing Basic pay up to Rs. 2700/-	Rs. 2 lakhs
(b) For those drawing Basic Pay Rs. 2701/- to Rs. 4500/-	Rs. 3 lakhs
(c) For those drawing Basic Pay of Rs. 4501/- and above	Rs. 4 lakhs

iii. **Amount of Advance Admissible:**

(a) For fresh construction or purchase of a house- 50 months basic pay of the employee or Rs. 2.50 lakhs or the actual cost of the house whichever is the least.

(b) For enlargement/addition to the existing house- 50 months basic pay of employee or Rs. 60,000/- or actual cost of enlargement whichever is least.

iv. **Repaying Capacity:**

Employees remaining period of service.	Repaying capacity.
Employees retiring after 20 years of service.	35% of basic pay
Employees retiring after 10 years but not later than 20 years.	40% of basic pay and 60% of Gratuity payable on retirement can be adjusted against advance/ interest
Employees retiring within 10 years	50% of basic pay and 70% of Gratuity payable on retirement can be adusted against advance/ interest.

v. **Rate of Interest:**

(a) 7% per annum if the sanctioned amount of advance is upto Rs. 50,000/-
(b) 8% per annum if the sanctioned amount of advance is upto Rs. 1 lakh.
(c) 9% per annum if the sanctioned amount of advance is upto Rs. 1.5 lakhs.
(d) 10% per annum if the sanctioned amount of advance is upto Rs. 2 lakhs.
(e) 10.5% per annum if the sanctioned amount of advance is upto Rs. 2.25 lakhs.
(f) 11% per annum if the sanctioned amount of advance is upto Rs. 2.5 lakhs.

The interest is chargeable at the uniform rate on the entire amount sanctioned and not on slab basis.

vi. **Repayment Period:**

The advance and interest thereon is repayable in a maximum number of 240 monthly instalments (180 for principal plus 60 for interest) depending upon the length of service. In case of those retiring before the period specified above, the number of instalments for recovery of the advance/interest are fixed appropriate to their remaining services.

HBA for Nationalised Banking Sector Employees.

Unlike the public sector employees, there are no apparent budgeted amounts for HBA to the Bank Employees. Thus every Bank employee is eligible for a housing loan, and few applications are rejected. Loans for Housing and other commen durables are thus treated as a matter of right in the Banking sector.

Banking loans are granted against creation of equitable mortage of land/building wherever possible. In addition, the bank requires assignment of the provident fund and gratuity fund to itself as a guarantee.

Terms:

i. Clerical and sub-ordinate staff are provided loan at 5% simple interest rate. The loan amount is 70 times the Basic Salary or Rs. 1.10 lakh, whichever is less. Repayment period is generally 25 years (300 monthly installments, with 188 installments towards principal amount and 112 installments towards interest).

ii. Officers in the Banks are provided loan of upto 50 times the Baisc Salary or Rs. 2.5 lakhs. The interest rates vary between 7.0% to 11.00% by the amount of loan, as in the case of public sector employees. Repayments are in 240 monthly installments (180 installments towards the principal and 60 installments towards interest).

HBA in Co-operative Banking Sector.

The HBA in the Co-operative Banking sector has in general, a much lower interest rate on the HBA to its employees. It, however, also places a much lower ceiling limit on the loan (Loan are granted for upto Rs. 1.0 lakh).

The security and the eligibility criteria, are roughly similar to that of the nationalised Banks. The interest rates, however, are fixed and applied to all categories of staff, irrespective of the borrowed amount. Each Bank charges a different rate (varying between 6 to 8.25 percent per annum). One particular bank offered a one percent discount to its employees, if they take a mortgage redemption policy assigned in favour of the Bank for at least 50 percent of the loan amount.

HBA to Private Sector Employee:

HBA by the private corporate sector is available only in a few large enterprises, employing more than 500 persons. The majority of employees in private sector enterprises have access only to their own savings, in the form of Provident Fund. However, since the availability of "loan" or withdrawls from Provident Funds are contingent upon the length of the service and the Basic pay, the funds available to an individual employee are generally very small proportion of the total housing cost.

The few private corporate sectors that do offer HBA to its employees, make the discretionary rights of the management very clear. Loans for Housing and other purposes are not a matter of right (as it appears in the Banking sector). They are also tied up with the length of service within the enterprise. The loans, which are highly subsidised (3 to 4 percent per annum interest for housing and interest free loans for other purposes), are used as "rewards" for loyalty to the company (length of service) or for certain corporate achievements.

Purpose:

Loans are made available for purchase of a house or for construction, reconstruction or rennovation of the existing house.

Maximum Loan Amount:

One month's salary for each completed year of service, computed on the basis of the rate of salary drawn by the employee in the month immediately preceeding the month of application.

Security:

A surety bond executed by two guarantors, at least one of nwhom should own immovable property of loan amount Nomination of Provident Fund and gratuity to the employer is also required.

Terms:

Loans upto Rs. 50,000/- are charged 3 percent interest and loans above that are charged 4 percent interest rate per annum. Repayments of principal and interest are to be made usually in 60 monthly installments. However, both the interest rates and the repayment periods are modified to suit the employee. (for example, the company often increases the repayment period to keep the monthly installments at about 10 percent of the salary).

A NOTE ON NON-FORMAL HOUSING FINANCE INSTITUTION.

"VISHIS" of Ahmedabad.

The term "Vishi" in local language, refers to a eating place frequently used by single males. It is surmised that the financial operations evolved historically to cater to the demand for finances from such client group. Today, the traditional 'Vishis' are probably non-existent, but the financial arrangements are wide spread in the city. The Vishi's are organised on the basis of geographic locations, community or ethnic background or at the place of work. The Vishis have membership of 10 to 300 members. (30-50 is quite common). The installments, i.e. contribution of memebrs vary from Rs. 25 to Rs. 300 a month.

The Vishis prime function is to provide "loans" to its members. So each months total contributions plus interest payments on past loans is available as a loan to the members.

There are two prevalent mode of granting loans to members. The more common mode is Ahmedabad is of "auctioning" of loan (akin to the chit funds in Southern India). The "reserve" bid is 12 percent per annum interest and repayment period is 6 months to 18 months (depending upon the number of members). The auctioning usually marks up the interests to about 24 percent per annum.

The second mode relates to a fixed interest payment of 12 percent per annum and the loan is granted through lottery or on first-come first served basis Such a mode is prevalent only amongst the vishis formed at places of work, where the members have known each other for a long time.

The vishis are managed by a person, who has had some experience in dealing with money. In the second mode of vishi, the manager has the first option at the loan without payment of interest. In the first mode, the vishi operators (Managers) have been known to take "remuneration" to ensure that all the loans are repaid in time.

Loans for Housing:

It is extremely difficult to obtain information on the loan made out for housing as the vishis do not compile information on the purpose of loans. Informal discussions suggest that about one-fourth of the loans are probably used for housing. As the amounts are small, these loans supplement other finances that may have raised by the member for housing. *

Registered Credit Societies:

In most large organizations, employing 500 or more worker, a credit society is run by the employees. Any worker employed by the organization is eligible to become a member of the credit society (or credit union) by a monthly payment.

The organization enables operations of the credit society through deductions of monthly contributions and loan amounts from the salary bills of the employer for the credit society. The credit societies are managed by elected representatives of the members.

A Credit Soceity in a Textile Mill:

The credit society has about 1000 members, all of whom are employed by the textile mill. Each member pays Rs. 40/- per month towards membership of the credit society. Once a member accumulates Rs. 1,500/- in deposit he is entitled to draw upon a maximum loan of Rs. 4,500/-. A loan applicant needs two guaranteers who must also be members of the same society. The loan has be repaid in 18 installments along with an interest of 12 percent per annum on outstanding loans. The member must continue to pay the monthly subscription of Rs. 40/- during the loan period.

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*In case study of home upgradation, a textile worer took advance on Provident Fund amount for constructing additional rooms. When the actual construction began, he found that he needed additional funds. He borrowed Rs. 5000/- from the vishi to complete the construction.

The interests on deposits, (about 6 percent per annum) and the income from interest on loans, is shared amongst the member each year, in proportion of the net deposits with the credit society.

While a majority of loans were primarily for consumption expenses (purchase of a TV, Vehicle etc) or marrriages in the family, at least one-fifth of the loans were believed to have been taken for housing related purposes. This was either for making downpayments for new housing projects, or for repairs/extention of existing housing stock.

A Co-op Housing Socеity Involved in Housing Finance.

In Ahmedabad, a housing society of lower middle income group households was organised through genuine efforts of a few individuals. It was not promoted by any builder/developer.

This society has 42 members. Most of the memebrs are textile mill workers. The initial house type was a single storey structure of about 60 sq.mt. tenement. The housing co-operative society had mobilised resources through (a) renlals from 6 shops along the main road (b) one-half percent rebate given by the Apex Body GCHFS for prompt repayment of loan installments and (c) fine collected from members who make late payments of installments.

This housing society had nearly Rs. 100,000 with it in the late seventies. A collective decision was taken to provide upgradation loan to the members, which would enable them to build one/two rooms on the second storey. A maximum loan of Rs. 15,000/- was to be made available at 9 percent rate of interest. The loan had to be repaid in 48 equal monthly installments. A member, who was not in arrears of his regular housing loan repayment to the GCHFS, and who had not built the upper floor, was eligible for the loan.

Out of total 42 members 30 members have been provided loans in the past decade. The average loan amount is about Rs. 12,000/-.

Post Script:

Such housing finance assistance is generally not provided by other housing co-operative societies in Ahmedabad. This society was also warned by the registrar of Co-operative societies, stating that provision of housing finance was not within the purview of the Co-op Housing Society. The housing finance by this Co-op. society has been discontinued at present. The remaining members, who require finances, are hopeful that the GCHFS officials will intervene and that the original arrangements will continue.

Chapter Two.

PRIVATE PRODUCERS IN HOUSING.

Despite a series of public housing programmes, nearly 80 percent of all formal sector housing has been produced by the private sector in India. It is of course only recently that an emphasis on housing support policies to facilitate the private sector in housing production has been explicitly recognized. Despite this, however, there have not been many concrete programmes within this framework. The present research hopes to explore the potential lines of action based on an understanding of the existing processes and the potentials and constraints in financing this sector.

Conceptually, the private sector may encompass a very wide canvass, incorporating both the private commercial and popular sectors. The popular sector refers to households or communities managing the productivity of their own housing for self consumption. However, given our emphasis on financing of housing producers, we shall limit our scope to the private commercial sector, and its formal and informal segments.

A large part of the economic research in housing has neglected the supply side. Quigley (1979) states, "During the past decade, much less theoretical and empirical work has been undertaken to unravel the complex supply phenomena...... By any standard, relatively less progress has been made in characterizing the decisions of individual landlords in this market, and systematic econometric evidence is notably weak". This gap on the side of urban economists, however, has been filled by more behavioural research in both the formal sector (cf. Kaiser and Weiss, (1970), Harmer and Webb (1978)) and informal sector (cf. Baross and Martinez, (1986) and Mehta and Mehta, (1987)). The main basis of this actor-oriented approach is the focus on decision-making procedures followed by either developers or communities themselves. This approach helps to breakdown the supply process in terms of a series of activities and decision-making criteria involved for each stage. "Because of the complexity of this process and the constraints of the institutional framework in which the developer operates, decision-making of necessity, involves interaction with other actors such as planners, financiers, politicians, landowners and others". (Harmer and Webb, 1978).

The residential production process is quite complex with sharp horizontal and vertical competition among the many specialized producers. Table 1 shows the actors and decisions required to construct a house. The construction process involves landowners, speculators, realtors, land developers, buildings, contracts, sub-contractors, a differentiated labour force, financiers, distributors, public officals and consumer. Each of these actors is specialized to meet a specific part of the construction process. Completion for a share in housing profits occurs both between and within each specialty.

Table 2.1

Land Ownership and Participation in the Residential Development Process.

Urban interest	Land purchase	Land development	Construction	Residence
The land has development potential and existing use becomes transitional.	A developer and landowner have contacted each other regarding the possible sale of the land is sold.	A developer has a definite idea of the timing and character of development. Land development proceeds.	A merchant-builder has begun construction of the residential structure.	A household has purchased the residential package of house and lot.
A rural landowner has control over the land.	A land developer or speculator has control over the land.	A land developer has control over the land.	A home builder has control over the land.	A household has control over the land.
	This action requires the participation of:	This action requires the participation of:	This action requires the participation of:	This action requires participation of:

Table 2.1 contd.......

Urban interest	Land purchase	Land development	Construction	Residence
	.current landowner .real estate agents .land developers .local government -permits -recording -fees -subsidies -tax laws .legal services .financiers.	.land developers .local government -permits -zoning -code variances -growth management policy -land development standards -annexation policy -fees .financiers .architects .engineers.	.land developer-owner .contractors .merchant-builder .architects .financiers .engineers .government -building permits -codes -inspections -zoning -mortgage insurance -guarantees -direct loans -subsidies -tax policy .manufacturers .distributors .sub-contractors .labour .land developers.	.builder-owner .real estate agent .financier .government -recording -fees -taxes.

Sources :
- . Edward Kaiser and Shirly Weiss, Journal of American Institute of Planners, January, 1970, p. 31.
- . Stephen Roulac, Modern Real Estate Investment, 1976, Exhibit 2, p. 31.

Housing Supply : Conceptual Analysis.

Most early neoclassical economic analysis of the housing supply have treated housing as a single homogeneous good that is fully described by its price. Muth (1969), in his analysis on equilibrium of housing producers, treats housing as well as its factors of production as homogeneous. In his framework Urban Land is considered homogenous except for its location, and is assumed to be perfectly divisible. Under equilibrium conditions, if all firms producing housing are identical or have the same production functions (using land and non-land resource), then all must earn equal incomes or profits. This requires that rentals vary directly with prices received at the point of production and inversly with non-land costs. Prices at each location reflects the bid-rents for specific use. With higher land prices nearer the city-centre, less of land in relation to non-land inputs will be used there for housing production. Consequently, the housing type would vary significatly between city centre and distant locations.

Kain, (1975), argues that heterogenity of housing is important on the supply side, because the costs and profitability of producing each type of housing in each neighbourhood depends on the physical characteristics and spatial distribution of the existing stock of housing capital. It is posited that the housing producers would produce that level of structure and associated services which will maximize the present value of the future stream of earnings.

The above analyses use the theory of perfect competition, which suggest that the output of an individual producer will have a negligible impact on the total demand for the good. The market will absorb whatever quantity the individual firm might wish to produce, and the prices will remain constant over the range of quantities which the firm has the short-term capacity to produce.

The Urban Land and Housing Market Nexus.

Bulk of the above type of analysis ignore the operation of urban land market, which has a key influence on the housing production and price levels. In a society where land is privately owned and is regarded as a source of revenue and profit, landowners have certain powers to control the supply of housing.

The reservation price of land is set by the landlord through complex calculations. The developer/builder considers the cost of land as residual. Given the current state of interest rates and availability of mortgage financing for the clients, the developer is likely to make an etimate of the selling price of housing as well as the costs of construction, including an acceptable profit rate. The difference between the selling price and costs plus profits is the amount that the developer will be prepared to pay the landowner. If house prices are rising, the landowners can raise their reserve price to ensure that they can capture part of this increase. Alternatively, they may withhold land from the market to ensure a higher land price.

The landowners' power to influence the land (and consequently the housing) market is tempered by land use planning policies and government legislations. Development Control means that there are effectively two markets in land. The land which is in confirmity to planning norms and govt. legislations and the land without the permissions.

In the formal market, the developers compete among themselves for control over a decreasing supply of land, as well as compete for economic advantages potentially associated with decreased production. In controlling the supply of "formal" land, a demand -supply imbalance is created leading to economic surplus.

The economic surplus represents that part of the total payment which is in excess of what is needed to bring it into production. If urban land were in perfectly elastic supply, there would be no surplus. In the formal' market, urban land is relatively scarce both because of the various legislation and high costs of servicing, and therefore economic surplus accrues to the landowners.

The existence of this surplus provides an inducement for each sector of the residential construction industry to develop the power with which to reap a share of the benefits. Those actors who have the greatest potential for concentration will experience greater pressure towards market oligopoly.

Market oligopolies in land market need to be understood carefully. It is necessary to distinguish land control from land development and land development from housing construction. Land ownership and home ownership may not be very concentrated in metropolitan market. It is in the transformation of the rural land to housing construction that the number of participants become small and the possibilities of monoloply profits arise.

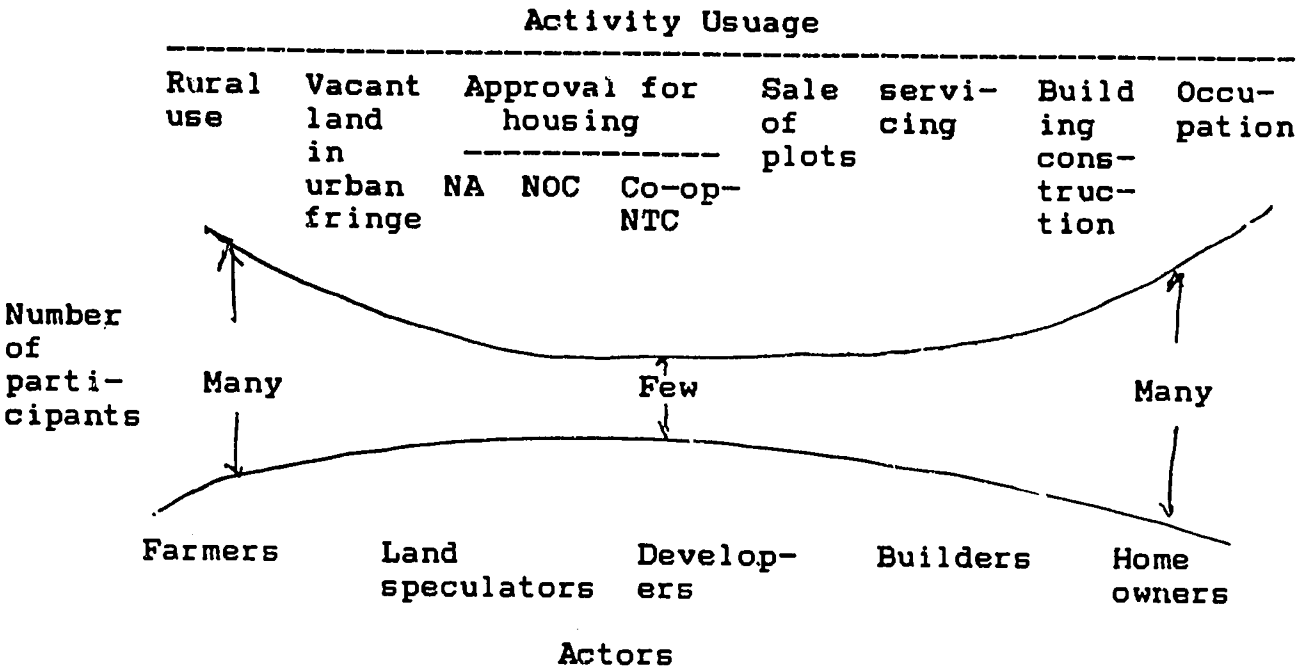


Fig. 1 : Land Development Process and Oligopolies.

Source : Elliot, (1979).

In housing, location over space and product differentiation by the producers mix with social, economic and environmental characteristics to produce distinct and isolatable market. "Housing market of any region is less a chain of substitutable products than a weave of sub-markets" (Elliot, 1979).

A developer consequently need concern himself only with a select market area and operate under monopolistic conditions. While the value of most products compete over differences in physical characteristics, urban rent will also arise from similar quality land and dwelling units being sold in different markets. The smaller the cross-elasticities of demand between market areas, the more delineated a region. Housing oligopolies emerge when control over entry is effected in these market areas. Such controls are created through purchase of large tracts of developable land, demonstration of economies of scale or absolute cost advantages in production or creating institutional restrictions to entry.

Such oligopolies control the supply of urban land necessary for housing. Within each sub-market, monopsony prevails and prices are set at levels where marginal costs equal marginal revenues. If demand for land is inelastic (e / 1), then a cutback in production will result in a more than proportional rise in prices, and therefore increased profits. Lessened competions, either by splitting the market into sub-markets or by reducing the number of firms competing in the market, tends to make the demand cuvre for the individual firm less elastic. Oligopolies in land and housing market, thus ensure higher returns on investments.

In typical metropolitan housing market, the building industry is characterised by an oligopoly with a large competitive fringe'. (See Basset and Short (1980), for Britain, Wadhwa (1987) for Ahmedabad, Tanna, (1988) for Bombay). The small firms usually operate with very little fixed capital and have a high failure rate.

The size distribution of producer firms within a housing market reflects the uncertanity about access to the factors of production - Land and capital. Both the consumers and suppliers depend heavily on external sources of finance and the supply of new housing thus is sensitive to conditions in the money market.

Though the profit motive is the guiding principle to the activities of builders/developers, the small firms in the completitive fringe face severe restriction. The small builders operate over a restricted sub-market. They have limited captial and hence can not afford to keep large land holding. As their access to institutional finance is restricted, they largely operate through equity finances of the potential clients. Since these builders operate in the competitive fringe of the housing market, they also tend to keep the cost of production as low as possible. They, thus, would prefer to keep their costs of borrowed capital as small as possible.

A large builders on the other hand have access to a wide range of capital sources which allow them to buy large parcels of land, necessary construction equipments and building material production units. Instead of depending solely on the equity contribution of buyers, these builders have a strong link to various financial institutions. The flow of credit is relatively smooth and since many large projects are handled concurrently, inter-project transfer of resources help to resolve short-term financial crisis.

Given our understanding of the operation ofthe private sector producers in metropolitan settings in India, it is possible to identify a set of activities associated with the supply of new housing as illustrated in Table 2.2. The variation in producer behaviour emerge from two main features, the sequencing of operations and omission of certain activities altogether as well as the mode of resource mobilization for different activities.

Table 2.2.

Activities in Housing Production Process of Private Firms.

PROMOTION.

- Starting a new firm / partnership.
- Initial Registration for buying land (`banakhat' Agreement to purchase)
- Design of Housing-product type, number, cost and layout/Plot sizes and services.
- Final purchase of land.

PERMISSIONS.

- Non-agricultural status permission.
- No Objection Certificate (`NOC') from competant authority (CA) for ULCRA (Urban Land Ceiling and Regulations) Act).
- Building Permission from local authority.
- Completion certificate/occupancy certificates.

MARKETING.

- Announcing and marketing publicity for the project.
- Enrolling potential real clients.
- Forming a Co-operative or Non-trading Corporation.

Table 2.2 contd.....

RESOURCE MOBILISATION.

- Finance for buying land.
- Applying for finance for Construction.
- Collecting Down Payments and initial installments from possible clients.
- Installments from clients.
- Borrowing from banks or private financiers for working capital or Bridge Financing.

CONSTRUCTION.

- Land development
- Utility networks or extentions.
- Initial construction-foundation, plinth.
- Construction framework/slabs etc.
- Construction - walls-fixtures.
- Construction Finishing.

OCCUPATION AND MAINTENANCE.

- Initial maintenance till handing over possession.
- Getting serivces connections.

Source : Based on discussions with Builder/developer firms in Ahmedabad, Bombay and Indore.

The main basis for financing housing producers has to be in terms of the likely benefits to consumers. We may distinguish between direct and indirect benefits. Direct benefits may occur if the reduction in housing costs due to lower costs of capital to the producers are acutally passed on to the consumers. We may hypothesize that these are not likely to be high especially for the larger producers, who are generally the price setters in the local housing market. The smaller developers who have to market their products at more competitive rates (and who are not price setters by any count) are more likely to pass on such direct benefits to the consumers. The more important impact of financing producers may be the possible indirect effects. By supporting private producers, there would be an increase in potential housing suppliers in the private sector that may induce larger supply of housing. This will hopefully lead to more competitive housing market and will have a significant impact on curbing the rise in housing prices.

PRIVATE PRODUCERS IN INDORE.

The housing supply system in Indore is in a transistional stage from a Land Market to a housing market. There exists a large and bouyant land market (both in the authorised and unauthorised segments), but a very small housing market for built units. The private sector has so far been active in land subdivision and development and has only recently begun to supply group housing.

Land Development in Indore.

Regulation and Control of urban land development in Madhya Pradesh is governed by a series of legislations. The first stage in the process is of obtaining permission for use of an agricultural land for non-agricultural purpose. The M.P. Land Revenue Code of 1959, under its Section 172 provides that any Bhumiswami (land owner) of land falling within an urban area or within 5 miles radius of the outer boundry of such an area, can apply for diversion of this land to non-agricultural usuage. It is essentially the private sector developers who apply for such diversion in the name of the original owner.

A private sector land developers, referred to as colonisers' in Indore, are equivalent of the organisers/developers of Ahmedabad and Bombay. However, unlike the organiser/developers whose activities range from land purchase to building houses, most of the colonizers of Indore deal only in land. The Colonisers account for nearly 90 percent of the land development in Indore. (The rest being contributed by the public authorities).

Untill the late Seventies, the colonisers' activities were not regulated properly. They, in connivance with the local officials, had set up many unauthorised colonies. These colonies were devoid of any services and the consumers were often cheated as the same plots were sold to more than one client.

Unlike Bombay and Ahmedabad, where land market essentially consists of transactions in large plots (more than 1000 sq.mts), in Indore, the colonisers cater to the downmarket demand of plots of 40 to 100 sq.mts. The colonisers purchase large tracts of agricultural land at Rs. 2 to 3 per sq.ft. and sell at Rs. 8 to 10 per sq.ft.

Marketing of land is largely undertaken by the Real Estate Brokers. The bouyancy of the land market can be guaged from the fact that within Indore city there are about 600 land brokers. This group of brokers are well organised and have a strong lobby in the State Assembly. Nearly every politician and senior officer of the Government is alleged to have a stake in the land market of Indore.

The widespread irregularities and rampant corruption in Indore land market led to its inclusion in the M.P. Vinirdishta Bhasta Acharan Nirvaran Abhiniyam of 1982 (The M.P. anti-corruption legislation). Under this Act, a coloniser licence is required to be issued by the District Collector, prior to formation of a colony. The coloniser is required to submit detailed layout plan of the site, indicate the water supply, drainage and sanitation provisions, and demonstrate financial capabilities, (through a Bank guarantee of one-fifth of estimated costs), prior to obtaining the liscence. The coloniser also has to submit the Non-agricultural use permission and clearances from the Urban Land Celing legislation (Indore is categorised as a class `C' city in the ULCR Act, 1976 and the Ceiling limit is 1500 sq.mt.). The layout also need to be approved by the Municipal Corporation or the Indore Development Authority along with the consent of the Chief Town Planner's office at Bhopal.

In the wake of the coloniser liscence system, the city of Indore has two district land markets - the "legal" market, where colonies are promoted in conformity with the legislative stipulations and the "informal" or unauthorised market.

It is estimated that in the post-1982 period, nearly 60 percent of the land supply in Indore is through authorised colonies, i.e. the colonisers have obtained the necessary liscence. This group of colonisers essentially cater to the middle and upper income group households. In certain locations up-market projects with club houses, play areas, paved roads are undertaken. However, most of the projects are targetted at the middle income groups with plot sizes of 60 to 300 sq.mts. The roads remain unpaved, water supply provision is bare minimum and other amenities toally absent.

As indicated, most transactions are through land brokers who get 1 to 2 percent commission from both the purchaser of the plot and the coloniser. For the authorised colonies, the colonisers help their clients to obtain institutional finances for construction. The institutions active in Indore are the Co-operative Banks, the M.P. Co-operative Housing Finance Society and to a small extent, HDFC.

The colonisers essentially finance their project through own resources. Land purchase is usually financed through making the land owner a partner in the venture. In any case no more than 20 percent of the land price is paid in the initial transaction. The balance is paid in installments as the plots are sold.

(For details see Chapter 3 on Land Development in Indore).

Unauthorised Cclonies.

The unauthorised colonies, are by and large set up on lands that have been put under acquisition by the Indore Development Authority (IDA). Since 1980, the IDA has declared 2198 hectares of land under acquisition for its various schemes. Of these, 526 Ha. of land were denotified from land acquisition. (either due to enchroachments, regularization of unauthorised colonies or due to some vested interest). Acquisition process for 803 Ha. of land have been stalled due to litigations, and is yet not completed for another 800 Ha. Thus, effectively, IDA has been able to complete development of only 13 Ha. of land so far and development of another 100 Ha. is underway.

The tendency of IDA to announce large chunk of land under its acquisition, has been a major boon for the unauthorised colonisers. These colonizers know in advance about the acquisition of land by IDA. This knowledge is used to purchase the lands for below the market price. A colony is announced and plots of 40 to 100 sq.mts. are sold at the rate of Rs. 100-250 per sq.mt. Most unauthorised colonies cater to the demand of the lower income group households. House construction in such colonies is self managed.

Under the existing anti-corruption legislation, promotion of illegal colonies (i.e. colonies without liscence) is a criminal offence. The same legislation, however, provides for regularization of such illegal colonies so that the poor households do not face hardship. Thus while on one hand, there has been a decline in the number of illegal colonies in Indore, it continues to be provided by the quasi-legal sector in the hope of its regularization by the local authority.

Housing Production in Indore.

Most of the housing stock is produced or managed by the people themsevles. Management of housing production is done through the petty contractors (essentially labour contractors). Nearly half of the small construction firms in Indore specialise in water supply, drainage and sanitation works, as these are generally absent even in the authorised colonies.

Only 15 to 20 percent of the builders/contractors (out of a total of about 400) are involved in turn-key projects of housing, i.e. they deal with forming colonies/co-operative societies as well as house construction. Their activities are essentially targetted to the upper income households. Such projects are usually apartment complexes in locations that house relatively more affluent sections of Indore (eg. Saket, M.G. Road). There is also a growing demand for up-market detached residential units in sub-urban locations beyond the jurisdiction of the Urban Land Ceiling Act.

All housing production activities are financed by the clients throgh periodic payments. The builders in the housing production are also involved with many multi-storied commercial projects, and thus do not seem to be in the need of institutional finances.

Indore thus presents a situation where institutional housing finance for individuals is still the most relevant form of finances. However, at present, there is very little housing finance forth-coming from institutions. It would thus be necessary not only to enlarge the institutional base for housing finance but also extend its scope to provide finance for land purchase.

PRIVATE PRODUCERS IN AHMEDABAD.

Ahmedabad has been a leading metropolis in the Indian setting for the dominant role of private sector in housing production. During the seventies, this sector supplied about 60 percent of the net additions to the housing stock. The structure of this sector has undergone substantial changes during the last twenty five to thirty years. Mehta and Mehta, (1987) highlight the fact that during the post independence period and especially in the sixties the private sector essentially comprised of the consumers (households or communities) building houses for themselves. Since the early seventies, however, this essentially `popular' sector has been gradually replaced by the private corporate sector. In the initial years, it was the technocrat- builders (engineers and architects) who dominated the scene. But with the changing scenario of prices, technology and a variety of governmental interventions, the `organizers', with the financial and legal backing have also gained a foothold.

Along with this restructuring, there are also other changes in terms of the market structure. A recent study by Wadhwa, (1987) characterizes it as "an oligopoly with a large competitve fringe". The competitive fringe made up of a large number of small operators probably helps to keep some check on the activities of the large and medium developers in the oligopoly. Thus, although the oligopolists are largely the price setters in the market, they have to either offer a better product or a price level which is comparable to that by the smaller developers. This structure, however, is probably undergoing changes recently as we see below.

PROCESS OF RESIDENTIAL DEVELOPMENT.

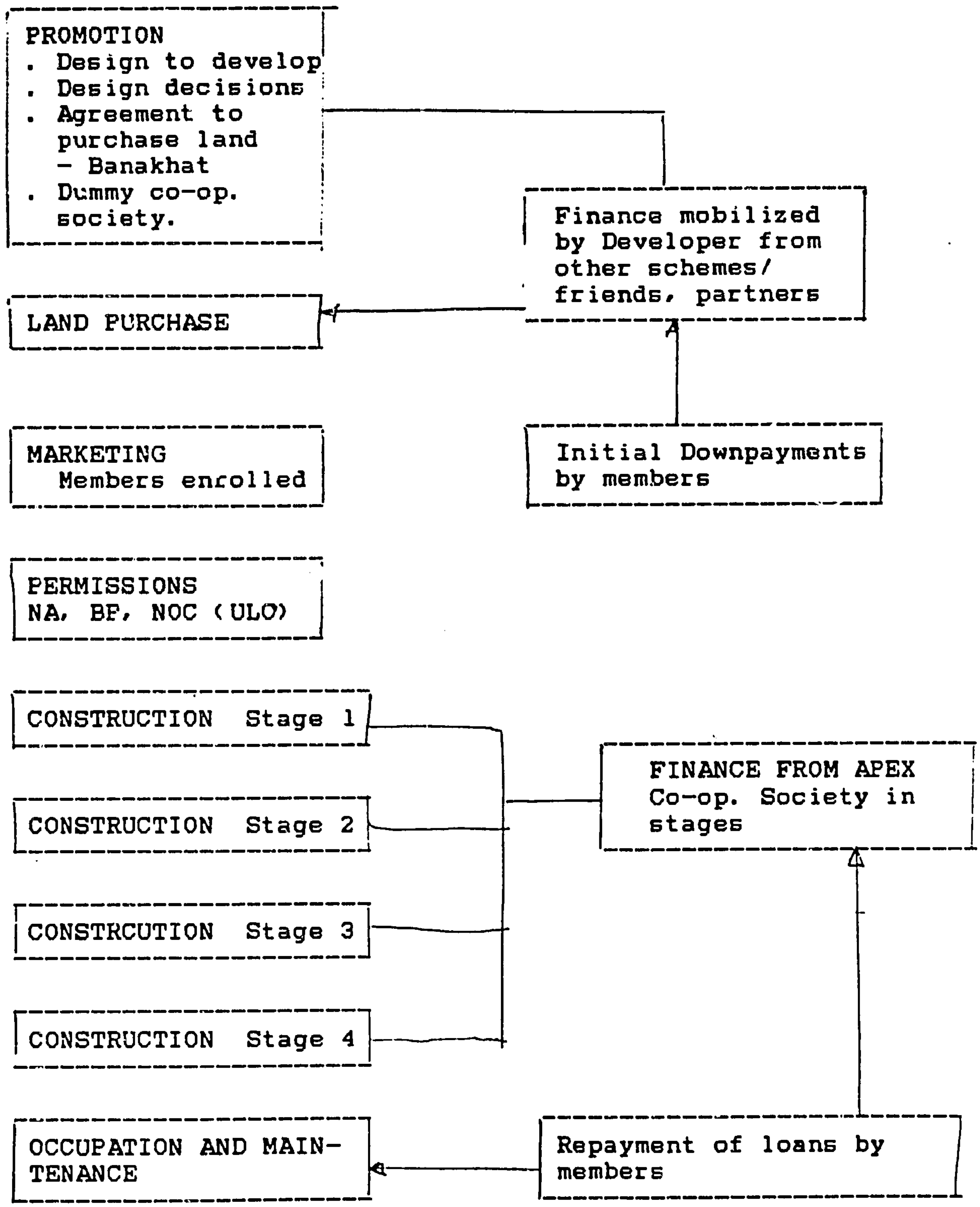
Within the overall market structure, the private sector process of residential development has undergone significant changes. The two main factors which have affected this are the source of finance used by the local developer firms and the apparent lack of demand which have characterized the formal sector sub-market in the city.

Era of Co-operative Finance.

During the sixties and seventies, the housing producers serving the middle and upper income groups had essentially relied on the co-operative sector finance.The dominance of private commercial sector emerged only in the seventies. During this phase, it essentially tended to be a suppliers' market with no difficulty in selling the units as soon as the housing scheme was announced. The process followed during this phase was relatively simple as shown in Fig. 2.2. The dependence on co-operative finance is quite clear. With moderate land prices and easy availability of buildable land parcels in the market, the builders had a heyday. This is clearly reflected in the large proportion of formal private sector contribution in net addition to the housing stock.

Fig. 2.2

Residential Process with Cooperative Finance - Seventies.



The easy availability of finances from the Apex Co-operative Housing Society led to formation of many genuine' co-operatives in the initial years. However, the various activities involved in the process of housing construction disuaded many members to take an active part in forming a housing co-operative society. A new group of professional called organisers emerged to fill this void. Many of these organisers were building contractors or land owners who had the requisite understanding of the land and housing market operation.

These organisers, over time, used the co-operative housing mode for financing of their housing project. A typical housing co-operative society functioned as shown in fig. 2.2. The up-front cost of land 'puchase' for the organiser was only ten percent of the price of land. This was raised largely from internal resources of the firm or borrowed from family and friends. Usually such lenders either got a share in overall profits or a house, depending upon the amount of funds provided.

The downpayments at the time of enrollments and subsequent payments by the prospective buyers, ranged from one fourth to one-half of the sale price of the house. This was used for final purchase of land and transfer of that land to the proposed society. The Apex Co-operative Housing Finance Society (GCHFS) provided the finances to the co-operative society (effectively to the organiser) which were required to be repaid over 20 years period by the home owners.

The organiser/ builder thus had access to free' finance from the GCHFS (without encumberances of repayment). The case of the flow of finance largely depended upon the rapport of organiser with GCHFS. It is apparant, from our discussions with the small and large organisers/builders, that a major share of co-operative housing finance went to the large builders. It is also possible that the nature of rapport of builders with the GCHFS, helped them to become a large developer.

Liberal Co-operative Banking laws in the state has led to mushrooming of Urban Co-operative Banks in the city. The large builders of the city also formed "their" co-operative banks, from which they "borrowed" bridge capital or provided additional finances to their clients. Case studies of a few large projects in the city (each with 3 to 4 thousand units) indicate that finances for the project were 'provided' by the co-operative bank, both to the builders as well to the clients in the guise of hire-purchase' scheme*. Such a scheme is also adopted by the public housing agencies that raise initial finances from HUDCO.

Impact of Urban Land Ceiling.

The Urban Land Ceiling and Regulation Act (1976), has had a mixed impact on the housing production process in Ahmedabad. During the late seventies, it led to increase in land supply, through the exemptions available under Section 20 and 21. The conditions of the exemptions (that 50 percent of the units were to be of 40 sq.mt. or less and the remaining 80 sq.mt. of less), suited the co-operative housing finance structure with its ceiling on loans of Rs. 25,000/-. The only `hurdle' that the builders had to overcome, was to obtain the exemption under Section 21 of the Ceiling Act. During the late seventies, the Ahmedabad Metropolitan Area witnessed an unprecedented spurt in housing activities. The Apex Co-operative Housing Finance Society also over-extended itself through provision of finance to the `co-operatives' registered during this period. (The Apex agency GCHFS, had Rs. 60 crores of overdrafts from the District Co-operative Banks).

In early eighties, a shift in the political party at State level, made it difficult for the builders and organisers to obtain exemption under the land ceiling legislation. During this period, the city economy also stagnated as a result of closure of many textile units. These factors along with a bouyant stock-market in the country led to divesting of funds away from housing sector. (See Mehta and Mehta, (1987) for details).

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* In The hire-purchase scheme, the clients pay a fixed monthly sum for a period of ten to twelve years, in addition to the downpayments. The conveyance of the property in the name of the client is done only after the full repayment. In one major scheme of 3500 units,the builder raised funds through initial downpayments (Rs. 8000/- per units), which was the estimated construction cost of the 22 sq.mts. unit in 1978-79. The balance amount of the sale price (total price Rs. 16000) was provided through hire-purchase. The clients were required to pay Rs. 120/- for 144 months to the co-operative bank owned by the builder.

Difficulties with exemptions under the land celing Act, appear to have raised the reserve price of plots of 1000 sq.mts. or less that are exempt from the ceiling. Such plots seem to be the only alternative for the smaller builders, who do not maintain large land holdings. With increasing land prices of such plots and with a stagnant housing price in the city for over five years, many small builders are turning away rom residential projects to commercial building projects. The large builders, have maintained sizable land holdings, and do manage to obtain the necessary exemptions from the ceiling Act, whenever required.

The increasing public intervention in the urban land market operations, through land ceiling legislation, reservations of land for public purpose and zoning, have led to a significant increase in the quasi-legal housing supply. Such housing is built without all or a few of the permissions and approvals that are necessary and is typically targetted to lower income households who do not use formal institutional finances.

From a Sellers' Market to a Buyers' Market.

The housing market in Ahmedabad has demonstrated a significant `turn around' over the last decade. There are many interesting sets of reasons, that have led to a slump in the housing market. The depressed economic situation in Ahmedabad civic disturbances during 1983-85, drying up of the funds from co-operative housing society and the relative stagnation in house prices have had a cummulative effect on the housing demand.

Our discussions with both small and large developers suggested that the "speculative" demand, i.e. purchase of housing by petty investor group for quick capital gains, used to account for 30 to 40 percent of the total sales in the seventies. In the mid eighties, the speculative demand for housing is negligible. It is likely that this surplus is diverted to away from real estate market or is at best being invested in land around the metropolitan periphery.

Housing producers thus have to hard-sell their products to the genuine buyers who are most likely to occupy the unit. The co-operative finances, which were made available to the developers/builders directly from the financial agency, is not easily available now. While the GCHFS does not have loanable funds, its ceiling limit (untill recently of Rs. 25,000/-), which was 50 to 60 percent of the price of a unit in the seventies, is now just 10 to 20 percent of the price. Thus, both the clients and the builders find this quite unattractive*.

* One fall-out of this has been the down-market in Building industry. A few builders have attempted to target products to lower income group households and maintain a loan to price ratio of 0.4 to 0.6.

Residential Process in a Buyers' Market.

The changed situation has led to major changes in the residential process with co-operative finance which we had outlined earlier. The major difficulty faced by the developers relates to the increasing risks in not being able to sell the units that they build. This is in total contrast to the earlier situation when most schemes were sold out at the first announcement often even before all the permissions were actually taken. Secondly, even when the buyers have been found, many are unable or unwilling to pay the promised installments even though more than 80 percent of the work may have been completed. As resales of such disputed property would be almost impossible the developer has to bear with the delayed payments. On the whole, the process has become much more complex compared to before as illustrated in Fig. 2.3.

The main difference that needs to be highlighted here is that unlike before the private developer has to actually produce at least some of the housing before the payments from buyers start trickling in. This represents a major change in the finance needs of the developers.

The activities described in Fig. 2.3 are with reference to specific projects. The smaller firms or new entrants would essentially have to go through this process every time. However, the larger or more established (having been in business for at least 10 years) firms also maintain an inventory of land parcels and plan a series of projects for the future. Even a medium size developer firm has enough liquidity (about 5 million rupees) to buy 5000 to 10000 sq.m. of land . In fact, the entire process of getting the necessary permissions for land development has become so complex that a group of land brokers in the city work on only this. They keep in contact with various authorities like panchayats (for N A permissions), competant authority (for ULCRA) and AUDA. As soon as a given plot has received the necessary clearances, they contact the developers. They charge 2 to 4 percent commission when a transaction occurs through them.

Quasi-legal Housing:

The quasi-legal developers, who operate mainly in the peripheral lands outside the limits of the Municipal Corporation, do not rely on such permissions. In the eastern peripheral areas, where most of the city's industries are located, these developers cater mainly to the industrial workers.

The process followed is quite different from the formal housing supply. As most of the housing is built on 'problematic' lands (lands under reservations, acquisition or disputes), the schemes are rarely advertised. The developers pays 10 percent of land price (which itself is 25 to 35 percent lower than 'officially buildable land price). The potential buyers come to know about the scheme through the signboards on the site or through friends or relatives who reside in the schemes built by these developers earlier.

As the entire building activity is without the necessary permissions from the appropriate authority, the speed of execution is crucial to the project and the builders attempt is to hand over the possession of the unit to the client as soon as possible. Since such units are 20 to 25 percent cheaper than formal units, many clients purchase such units despite the knowledge of its unauthorised nature. The benign neglect (and probably petty corruption) of the authorities towards such schemes have helped keep this market bouyant.

Fig. 2.3

Residential Process in a Buyers' Market - MIG & HIG.

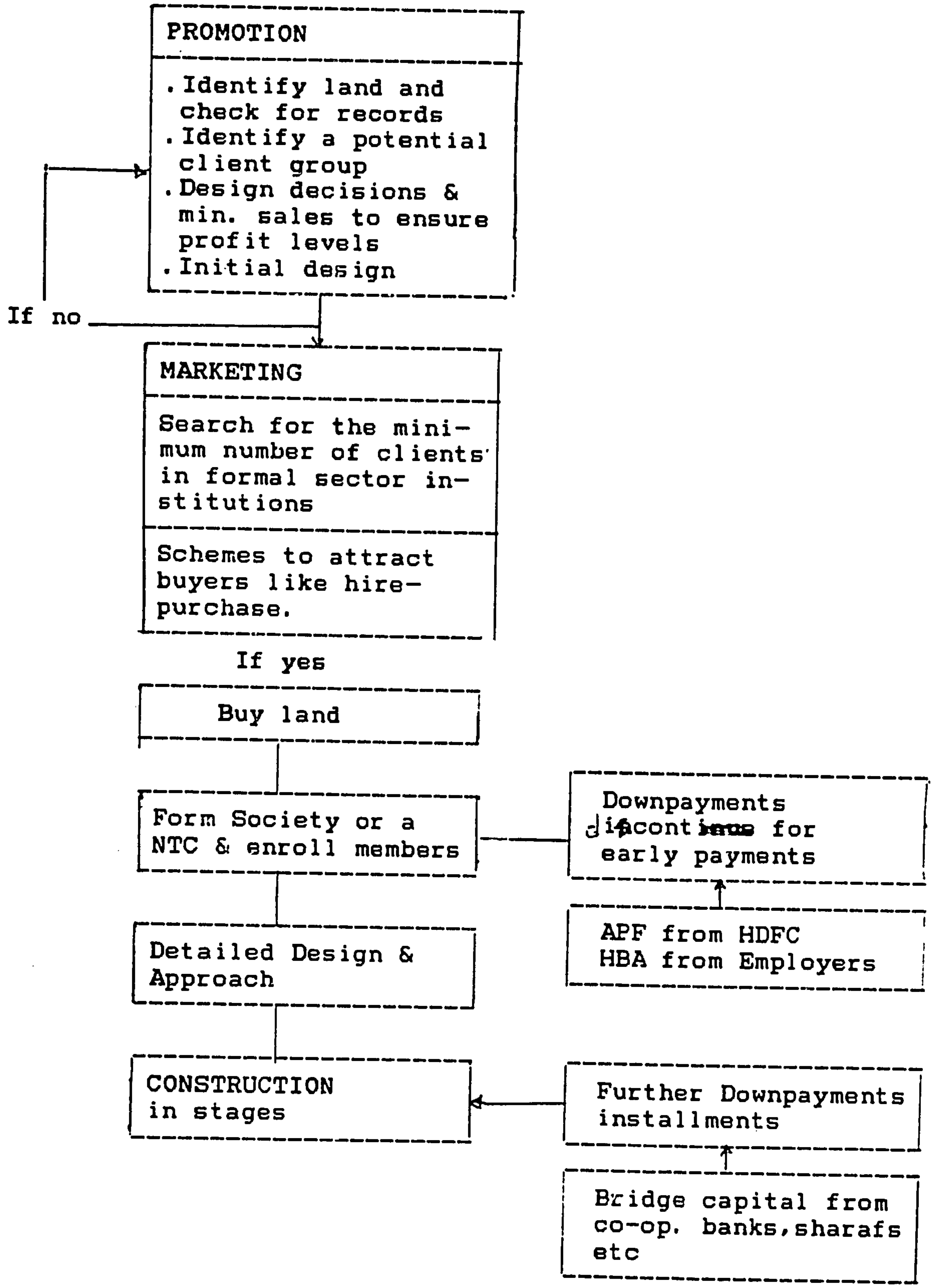
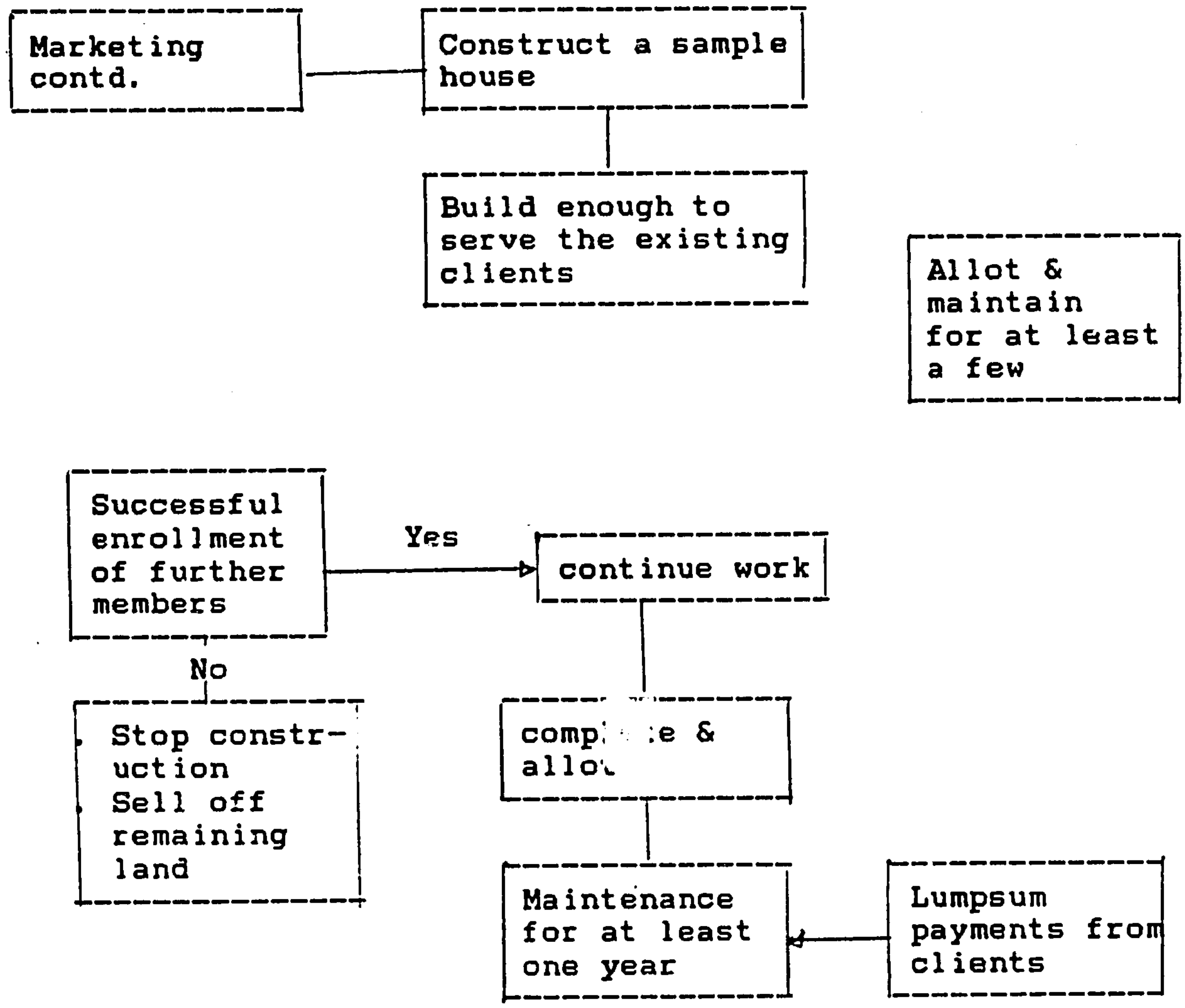


Fig. 2.3 contd.....


Marketing contd.
Construct a sample house
Build enough to serve the existing clients
Allot & maintain for at least a few
Successful enrollment of further members
Yes
continue work
No
Stop construction
Sell off remaining land
Maintenance for at least one year
Lumpsum payments from clients

PRIVATE PRODUCERS IN BOMBAY.

The private corporate sector in Bombay supplies nearly 85 percent of the formal housing construction. The unit price of land (and consequently housing) in Bombay is probably the highest in the country, for relatively similar locations. Housing thus constitutes an important segment of the local economy, in terms of the high monetary value of the output. The higher value of the housing stock, coupled with relative scarcity of buildable lots within Greater Bombay, have probably made the housing producers in Bombay more innovative and enterprising than their counterparts elsewhere in the country.

The precise number of developers/builders in Bombay are not known. The Maharashtra Chamber of Housing Industry (MCHI), established three years ago, has nearly 400 members. It is estimated that there are probably as many builders in the city, who are not on the rolls of the MCHI.

Private Corporate Sector housing activities appear to have begun in mid-sixties. Till then the housing construction was undertaken by the small contractors. Till mid-seventies, the housing production system in Bombay was similar to the one described for Ahmedabad. This is in the context of the use of the Co-operative Housing Finance Society's funds for a majority of the housing stock produced. However, unlike Ahmedabad, Bombay also had an upmarket clientele, which 'was catered to, through the multi-storied Apartment Blocks in South Bombay.

The market segmentation also led to specialization amongst the producer group. The large builders (or those who had access to land and capital) concentrated on up-market residential or commercial buildings, while the small and medium producers exploited the co-opertive housing finance.

Housing Production since late Seventies.

House prices in Bombay are reported to be rising at the rate of 20 to 40 percent each year depending on a locations. (Tanna, 1988). The `boom' in the housing market continues unabated. As a result, large sums of money are involved and the production system in terms of the actors and agencies involved is a complex one. High prices have made the Co-operative finance with its ceiling limit, unimportant. The Builders and Consumers are thus forced to tap from a wide range of resources.

Housing in Suburban Locations.

A major part of the housing activities in Bombay takes place in suburban locations due to availability of land. Housing activities in the peripheral suburbs caters to the lower middle income households. Many small builders of Bombay operate in these locations. As these locations are beyond the jurisdiction of Municipal Corporation, the building regulations, zoning and other controls are overlooked by the builders and local authorities. Three to four storied walk-up apartments are constructed without any provision of water supply or adequate sanitation. Water is supplied through tankers in the Western suburbs and the occupants have been known to spend Rs. 150 to 200 on water alone.

For purchase of land in these areas, the small builders pay only 10 to 20 percent of the land price to the owners. The large builders, on the other hand, purchase large tracts of land in suburban locations. The small builders announce the projects and pay for land as well as the requisite permissions, from the downpayments received through clients. Construction activities begin soon after Non-Agricultural Use Permission and building permission are obtained. Since no services are provided by the local authority, the small builders also do not bother to provide these services.

A few large builders, ho have undertaken major projects in the suburban locations, do provide for the utilities like water supply and sanitations. Such projects, obviously command higher prices, (or that prices are set by the builders). There appears to be no marketing problems for the builders as they perpectually operate in a seller's market.

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*The recent provisions of the Income-tax Act, provide for mandatory permission for property transaction above Rs. 10 lakhs. Failure to do so or under reporting the price may lead to acquisition of the property by the IT department. As a result of these, there has been a stagnation of prices in the up-market segment and fewer projects are initiated now.

Housing within Greater Bombay.

Within the limits of the Municipal Corporation, vacant lots are generally not available. Most of the construction activities in south Bombay used to be on land reclaimed along the coast or on plots with small structures. The latter category of sites are still the most prevalent form of residential construction activities. Within Greater Bombay, land prices are quoted on the potential built-up area (the surplus FAR available). The earlier provision of Transfer of Development Rights from one location to other, also enabled builders to promote multi-storied apartment complexes in South Bombay.

A Builder in Bombay is usually on the look out for any piece of land with as little enchroachment or other encumberances (such as reservations for public uses). Such land is either purhcased outright or the land owner is made a partner in the proposed project. He may be promised some floor space. Similar arrangements are also made with financiers, who provide the initial captial to launch the scheme. They either provide an alternate accommodation to the existing residents on the same site or pay a lump-sum amount to vacate the premises. A combination of both is generally required.

Financing of land purchase is the most crucial aspect of the building activities in Bombay. With high land prices (2000-3000 per sq.ft. in South Bombay) and 1000-2000 per sq.ft. elsewhere in Greater Bombay). The initial capital outlay required is extremely high. Thus even a small project (50 to 100 units) within Greater Bombay, would require an initial capital of about Rs. 50 lakhs for land alone. (The builders also estimate that their expenditure on getting the necessary approvals from local authorities is roughly ten percent of the land price.).

There has emerged a group of financiers in Bombay, who specialize in providing finances to the builders. Such a financing is availed of by all classes of Builders, for land purchase.

Construction activities are financed through payments from the clients, or rolling of funds from one project to another. Buyers of apartments generally pay 10 percent of the agreed selling price to the builder for "booking". Another 10 percent is collected at the time of signing the "agreement to sell". The balance is taken on installment basis. Installments are tied up to the stages of construction and thus the builder, under normal circumstances, has sufficient resources. If the project is held up for some reasons or if the installments do not come in time, the builder is forced to borrow working capital from financiers, or overdrafts from the Banks.

In a seller's market, the builders have an upper hand, and have insisted on regular payment of installments. Most large builders are known to change 20 to 21 percent intrest from defaulters. The eventual threat is with regard to cancellation of booking.

Unlike Ahmedabad, housing projects in Bombay involves many professionals. It is customary to have a solicitor (Lawyer), finance company (often the builders own enterprise), a promoter company, and marketing agencies, associated with a project. The general procedure as regards the building permissions are quite similar to those described for Ahmedabad.

RESOURCE MOBILIZATION BY DEVELOPERS.

As discussed, till the mid-seventies, the co-operative housing finance system prevalent in the state provided major finances to the builders during the project and the responsibility of its repayment was subsequently transfered to the home owners. Thus, the cost of such financing to the builder was negligible. It is estimated that nearly three-fourth of the private corporate sector housing in the city till the late seventies, was financed through co-operativce finance structure*.

The Eighties, present a very different scene for the private producers in the city. Most small developers, have had to rely on the equity financing of the clients. These clients, in turn, have been raising finances from employers (in the form of Home Building Advances, withdrawls from Provident Funds), through Housing Finance institutions such as the HDFC or through the credit unions and other non-formal sources.

The builders and developers have also had to innovate financing of their schemes through hire-purchase schemes, arrangements through insitutional financing or non-formal sources of funds.

Fig.2.4 presents a summary of the financing arrangement of housing producers in Ahmedabad and Bombay. The funds for the initial "agreement to purchase" essentially comes from internal sources or the family and friends. While there is an implicit cost of the capital locked up in the project, there are also high expected returns (25 to 30 percent for the total project cost, see Wadhwa (1987), for Ahmedabad, Tanna (1988) for Bombay).

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* Though do not have the exact proportion of Co-operative financed housing in the city, the reported estimate of its share was repeated by many builders/developers in our interviews.

Fig. 2.3

Financial Assistance for Private Producers.

Activities and Sources.

Activities or stage of work	Source of Finance generally used at present.	
	Source	Terms and Conditions
1. 'Banakhat' - to sell "initial" Agreement for purchase of land - 10 percent of the total value.	i. Own investments generally profits from earlier schemes are rolled over.	Implicit opportunity cost of capital.
	ii. For new entrant, family saving.	"
2. Land Purchase	i. Own investments as above.	"
	ii. initial downpayment from members.	
	iii. Investors/ Private financiers.	1. Term loan of 2/3 years à interest rates 9-12% p.a. for cash loans, 24-36% p.a. for loans by cheque. 2. Instaad re-paying the principal & interest built up space is allotted to them.
	iv. Co-operative Banks	Loans on personal guarantee for 6 to 24 months à 18% p.a.

Fig. 2.3 contd......

Activities or stage of work	Source of Finance generally used at present.		
		Source	Terms and Conditions
	v.	In case of large, projects on prime land, collaboration with the land owner/ or other builders/ developers	The land owner is ensumed some land floor space or certain proportion of the profit.
	vi.	Deposits	Interest rates 15 to 18 %.
3. Land Development.	i.	Down payments from clients/members	Builders collect deposits from friends/ relatives of smallsums (5 to 25). Interest payments are as in the case of investors/ financiers.
4. Construction:) . Foundations,) Plinth,) . Framework,) Slabs,) . Walls) fixtures.) . Finishing.)	i.	Installments from owners.	
	ii.	Known Financiers/	15 to 18% rate of interest.
	iii.	Credit from material suppliers or collaboration with material suppliers.	Credit of 3 to 6 months. In recent years due to the difficult times- the suppliers give credit 12 months.
	iv.	Short-term loans from sharafs	24% to 36% p.a. for 3 to 12 months amount may range from 50,000 to 10 lakhs.

Fig. 2.3 contd......

Activities or stage of work	Source of Finance generally used at present.	
	Source	Terms and Conditions
	v. Overdrafts from banks)	16-17 % for 3 to 6 months.
	vi. Loans from Co-operative) banks.)	15-18 % p.a. for upto 2 years.
5. Maintenance for initial period.	Interest from Lump-sum collections from members at allotment.	Capital to be returned to society or association after the developer leaves.

Source : Based on Case studies of private producers in Ahmedabad and Bombay.

Financing of Land.

One of the critical need for housing finance for the small and medium developers relate to purchase of land (the large developers may have a large reserve of land). In both Bombay and Ahmedbad, this was cited as a major requirement, by both the small and large builders with whom we had extensive interviews.

In absence of the institutional finances available for land purchase, the producers have had to mobilize finances from a variety of sources. In addition to the own funds, a predominant mode in Bombay appears to be of raising finances from investors/private financiers. In Ahmedabad, the dependence on initial downpayments by the clients continues to be important. The repayment of the loans by the private financiers, is generally in terms of built up space in Bombay. The effective interest rate paid for such financing depend upon the rate of increase of house prices and on the time taken for completion of the project. Our computations indicate the effective interest rate to be between 18 to 24 percent.

There exists a class of speculators" in both Bombay and Ahmedabad (despite a stagnant house prices), who provide finances to builders, through outright purchase of the dwelling unit at a discounted price, by making full payment. The discounts offered are 15 to 25 percent of the "market" price in Ahmedabad. The builders target at least 10 to 15 percent of their units to such buyers, as it helps to mobilize capital for land purchases. Such speculators/buyers are essentially non-residents of Ahmedabad (mainly from Bombay or other cities of Gujarat - Surat, Rajkot, where house prices are known to rise rapidly). These speculators pin their hopes on a prospective recovery of the housing market in Ahmedabad. The current level of house prices enable them to buy prime residential properties in Ahmedabad. Most of these investors use their own funds for the outright purchase of housing unit. On the whole, however, the volume of speculative finances available to developer group in Ahmedabad is quite low, but appears to be on an increase in Bombay.

The private financiers, who generally operate in the guise of a finance company, either as a partnership firm or a private limited company, provide the necessary finances for land purchase and other stages of the project. These firms provide the `unofficial' funds (`Black' money) at 9 to 12 percent per annum interest for a short term (upto 24 months). A typical land deal required that 40 to 50 percent of the market price be paid in cash. The official funds, are more expensive, as they are available at 20 to 36 percent interest. Most builders in the informal housing market seem to raise the finances for the `unofficial' funds from such financiers.

A more common mode of financing land purchase, especially in the quasi-legal market, is of collaboration with the land owners. Since much of these units are built on problematic' sites. the landowners are more inclined to favour arrangements that would fetch as large a return as possible. They are thus willing to forgo the receipt of full value of land at the start of the project. (This full value is, in any case, for lower than the prevalent market price, because of its problematic nature).

Many medium to large builders, appear to mobilize resources through soliciting deposits from a small network of friends/relatives or past clients. Since the interest rates that public limited companies can offer on deposits from general public are pegged at 14 percent, the depositors find it attractive enough to earn 15 to 18 percent interest on deposits with the builders/developers firms. However, as the sums involved are generally small, this does not constitute to be a major source of finance for the builders.

Institutional Finance for land purchase

The only institutional source of finance for land purchase that we came across, was through the Co-operative Banks. The finances were provided on personal guarantees to the developers for a short term at an interest rates of 17 to 18 percent.

Such finances were available to only a few selective developers of repute or who had a close rapport with one of the directors of the Bank. Small developers, were, in fact, denied finances by these banks.

The limited (or negligible) role of institutional finances is largely due to the inherent nature of the housing production system. The process of bringing a plot of land to a formal `buildable' status, often takes up two to three years. The financial or Banking institutions are unwilling to lend for the building plots untill clear titles and permissions are obtained, whereas the landowners needs to be paid fairly soon. The builders are thus faced with a situation, where they need the finances to purchase land, and they need the land to obtain finances.

Financing during the Construction Stages.

In the bouyant housing market, where most of the announced units are `booked' (i.e. the downpayments paid), the builder/developer has sufficient funds to begin construction. The installments from the clients at the completion of each stage of work enables financing of the project.

However, in a market like Ahmedabad, the builder needs to begin and continue the construction works, even if no more than half the units are booked. This is required to attract prospective customers and to assure the existing clients that the houses would be delivered.

The flow of funds from the clients is, crucial in the construction process, as there are lumpy expenditures at various stages of work. It is often found that even when the units are `booked', the clients default in payments and the builder has severe cash-flow problems. Large builders overcome such crisis through inter-project transfer of funds, but the small builders are often hard-hit. They have to resort to various financial arrangements to overcome the shortage of funds.

Such builders usually depend on Bank over-drafts and credit from building materials suppliers. The Banks charge 17 to 18 percent per annum interest to provide overdrafts upto certain prescribed limits. The material suppliers, typically grant credit for 3 months without any interest. In Bombay, they are known to charge 12 to 18 percent interest for payment delayed beyond three months. However, in Ahmedabad, interest free credit is often extended upto a year, as the turnover of building materials is low.

Institutional bridge financing to the builders is available to a select few from the Co-operative Banks. The HDFC, which has recently introduced a scheme of bridge financing has operated this scheme essentially in Bombay. Very few builders in Ahmedabad were even aware of such a scheme. Both the Co-operative Banks and HDFC provide short-term loans (3 to 9 months) at 17 to 18 percent interest rate. The scheduled nationalised Banks have generally refused to finance the construction industry. In a few instances, the Banks have been known to provide credit against certain deposits. (The deposits favoured by the Banks are foreign currency deposits from Non-resident Indians). Builders have to arrange for such depositis and draw credit at 12 percent interest on 90 percent of the deposit amount. Over and above, this, 2 to 3 percent of "premium" has to be paid by the builders in cash to the agents who manage to get such deposits.

Those small builders, who do not have access to institutional finances, and who find the overdrafts or the material suppliers' credit inadequate, have the last resort of approaching the "sharafs" or liscenced money lenders. The sharafs provide small amounts (50,000 to 500,000) on personal guarantee and verbal assurance of a third party known to both the lender and borrower. The interest rates are high (usual charges 3 percent per month, but in certain cases, loans have been advanced at 2 percent per month). Such high costs of financing affects the overall profitability of the builders and thus such funds are sought only by a few and the amounts are kept as low as possible.

Financing of Maintenance.

During the boom period, the builders can quickly pass on the responsibility of maintenance to the purchasers' organization. (The municipal regulations require some owners organization for a group housing project for maintenance of common spaces like lobbies, staircases, elevators etc.). The Co-operative Housing Society formed to obtain finances from the Apex body like GCHFCS or MCHFS, took over such responsibilities in the past. However, at present, the availability of finances from the Apex body are limited. Both Gujarat and Maharashtra States have also amended the stamp duty Acts to bring the transfer of co-operative housing units into the net of property transfer taxes. (In Maharashtra, certain concessions are available, but in Gujarat, the Co-operative units transfer is taxable at par with other properties).

Avoidance of such transfer taxes are, however, possible through formation of a Non-trading Corporation. The owners associations formed under the non-trading Corporation, is then made responsible for maintenance of the property. In Ahmedabad, it is fairly common to find about one-fifth of unsold units, even after completion of the units. The builder, who would have formed the NTC with 'dummy' memebers initially, thus has the major responsibility to maintain the project for a year or two.

Many builders collect a initial deposit of 3000-5000 from each client towards maintenance funds. This provides the builders, the initial finances for starting a new project. The builder, in turn, maintains the common facilities and services.

Summary

Housing Production by the private corporate sector involves many actors and agencies. The market segmentation and its appropriation over the builder/developer firms within a metropolitan market, lead to oligarchic conditions. There, however, exist a competitive fringe of the market, comprising largely of the small builders.

Institutional finances are, in general, just not available to the housing industry. The limited role of Co-operative Banking (and a very limited role of HDFC in Bombay), is largely confined to a select group of builders, who dominate the sub-markets.

The bulk of the small developers depend solely on the inflow of funds from the clients, or failing which, resort to borrowings from non-formal sources. Such borrowings, under the present market conditions are extremely expensive for the producers. While it erodes the profitability of the housing producers, there is usually an attempt to pass on these costs to the consumers.

There is thus, a very strong case for making institutional finances available to the builders on a wider scale. There is a demonstrative demand for finance and the willingness to pay much larger rates of interest than the Bank rates. Apart from increasing the competitiveness of the small builders against the oligopolists in the market, such financing would also help formalize the housing production system to a large extent.

Chapter Three.

LAND DEVELOPMENT IN INDORE.

The premier city of Madhya Pradesh, with an estimated present population of about 1.2 million, appears to be totally ill-prepared in making available developed land for its rapidly growing population. The Development Plan of Indore, prepared in 1975, envisaged that 9456 Hectare of developed land would be required to accommodate the projected population of 12.5 lakhs, by the year 1991. As against this, in 1974, the developed area was only 2544 Ha. The plan, thus required 556 Ha. of land to be developed annually to fulfill the development plan proposals. The planning process, adopted in the State of Madhya Pradesh requires detailing of the development plan through zoning plans.

Zonal Plans.

The Madhya Pradesh Town and Country Planning Act enables the Director of Town Planning to prepare a zoning plan. (It is ironic that the Indore Development Authority (IDA) is not empowered to prepare development or zonal plans). As per the Act, such a plan must be prepared within 6 months, if requisitioned by the State Government. The scope of Zoning plan (which apparently is made for an area of about 100 to 150 Ha.), includes detailed land use specifications, reservations for public purposes, roads etc. development control regulations and provision of infrastructure. The provisions of section 21 also include:

i. Define and provide for the complete road and street pattern for the present and in the future and indicate the traffic circulation;

ii. Lay down in detail the projected road and street improvements, and,

iii. Assess, make provisions for and provide the future requirements of amenities, services and utilities such as municipal transport, electricity, water and drainage. (Datta, 1987).

In this sense then the zoning plan is very similar to town planning scheme mechanism adopted in Gujarat in terms of what it is supposed to achieve. However, there are at least two major aspects in which it differs from TPS.

a. The TPS essentially attempts to reconstitute the existing plots (OPs) to ensure buildable plots with access (FPs), and reserving land for road network and other public purposes. Due to this, once TPS is sanctioned at the preliminary stage, the land for roads and public amenities (including the land for EWS housing) automatically rests with the local authority. In the zoning plan, the authority has to acquire the land under the antiquated Land Acquisition Act. This requires enough finances also. In fact, under the Act, it is stipulated that "no land shall be so designated (to be acquired for public purpose) unless the acquisition proceedings are likely to be completed with ten years of the preparation of the plan". It, therefore, becomes very difficult for the local authority to ensure these. Available studies indicate that even when zoning plans have been sanctioned, encroachments take place on lands meant for even major arterial roads. (Datta, 1987).

b. The second major difference relates to a total lack of any provision in the zoning plan to generate resources to finance provision of basic utilities and roads. Unlike the TPS which attempts to recoup at least some of the unearned increments in land values, the zoning plan of M.P. totally fails to provide any mechanisms to this end.

Given these limitations, it is not very surprising that the progress on even preparation of zoning plans has been slow. For the preparation of zoning plans, many of the 11 planning units have been further sub-divided into several sub-zones. Although the preparation of zoning plans have been taken up in several units, by 1987 only 3 were finalized. The implies that out of Development Plan area of 12,000 Ha., detailed proposals were worked out for only 520 Ha. (only 4.4 percent) to guide detailed land development. (Datta, 1987, p. 63).

Land Development and Its Market.

Despite the grandiore plans for city development, no formal mechanism exists for land development and servicing in Indore. The implementing agency, Indore Development Authority, (IDA), has been entrusted with the task of land development and servicing. In a decade, it has developed about 1000 Ha. of land, as against the plan projections of 556 Ha. per year. (See the detailed description of IDA's activities in a subsequent section).

The Urban Land Celing Act appears to have had some effect on IDA's land acquisition activities. Though under the ULCR Act of 1976, 300 Ha. of land was declared as surplus initially, only 70 Ha. continues to remain as surplus land. The rest have been turned down as surplus land by the Applettee authority or the State High Court.

Nearly 1000 Ha. of land in Indore was exempted from the Land Celing Act, for private colony development. This mode of colony development (or `colonizing' as refered to in Indore) appears to be the predominant market response to cater to the demand for land. It is estimated that there are about 400 unauthorised colonies in Indore city.

Indore has a peculiar land situation. The public agency, IDA has notified large tracts of land around Indore for its acquistion. The unauthorized colonizing takes place on these lands by the private developers. The large scale acquisition (or the process of acquisition) by IDA, along with the Urban Land Ceiling, has created a situation of notional land scarcity in Indore. As a result, the land prices, all over the city, have risen quite rapidly since 1980. As an illustration, land prices rose from Rs. 3 per sq.ft. in 1976 to Rs. 7 in 1980 and to Rs. 250 per sq.ft in 1988 in Saket Nagar (a relatively up-market neighbourhood).

Table 3.1

Land Prices in Saket Nagar.

Year	Rs./Sq.ft.
1976	3
1977	4
1978	5
1979	6
1980	7
1981	10
1982	25
1983	50
1984	100
1985	150
1986	200
1987	225
1988	250

Source : Shanivar Darpan" A weekly newspaper of Indore dated 24 December, 1988. (This newspaper is, financed by a prominant developer/builder of Indore and is often used to lobby the private sector interests.

This are, of course, a marked differentiation in land prices within the unauthorised colonies. These are generally one-half of the market value of authorised and serviced lands. The land market is thus quite bouyant, and the public agency like IDA, does little to alter the supply situation in the city.

LAND DEVELOPMENT BY IDA.

The Indore Development Authority was established in 1977, as a successor to the Indore Improvement Trust, to implement the development plan proposals of Indore. As an implementing agency, IDA wields significant powers to acquire land, develop and sell residential as well as commercial plots and undertake building works. IDA relies upon bulk Land Acquisition to undertake development works.

In recent years, a large township of 6600 plots (primarily sites and service plots) has been built under the World Bank aided M.P. Urban Programme. It has also been using Integrated Urban Development Programme (IUDP) funds for slum improvement projects. The land development activities by IDA are contingent upon the land under its possession. Just as its predecessor, it prepares `schemes' for land development, residential construction and other activities. Despite a decade of work, it has not been able to increase the supply of serviced land in Indore in a significant way. It has so far developed 9853 residential plots (242 Ha.). Nearly a third of these plots were built in 1982. Its record of house construction is also quite poor, with 4900 units in over a decade. Even here, 4000 units were built as a part of the World Bank aided township in the past three years.

Table 3.2

Types of plots developed by IDA.

Year	Type of plots				scheme name as designated by codes.	Area in sq.mts.	Total plots
	HIG	MIG	LIG	EWS			
1977	33	42	45	19	47,54	27578	139
1978	51	78	141	-	44,47,54	53760	270
1979	126	198	415	352	31,44,47,54	1373042	1091
1980	43	35	61	106	31,44,47,54,59	36955	245
1981	176	149	418	515	31,44,51,54,59, 71	177955	1258
1982	86	181	278	2697	44,47,51,59,71, 71,74	251588	3242
1983	12	61	250	-	44,47,59,74	52515	323
1984	62	157	637	268	31,44,51,55,59, 71,74	124827	1124
1985	70	47	157	176	30,51,54,55,59, 71,74	71137	450
1986	103	27	200	693	30,46,47,51,54, 59,71,74	105819	1023
1987	106	14	86	120	30,31,46,47,54, 55,59,71	58264	326
1988	195	115	34	18	74	97050	362
Total	1063	1104	2722	4964		242 Ha.	9853

Source : Indore Development Authority Records.

Table 3.3

Houses construction by IDA (Indore).

Year	HIG	MIG	LIG	EWS	Total
1976	-	-	-	250	250
1977	-	-	-	25	25
1978	64	44	-	-	108
1979	188	56	102	-	346
1980	-	-	-	-	-
1981	-	-	-	17	17
1982	-	42	16	14	42
1983	-	-	-	41	41
1984	-	-	-	-	-
1985	-	-	-	38	38
1986	-	-	-	900	900
1987	-	-	-	2015	2015
1988	20	-	-	1100	1120
Total	272	112	118	4400	4902

Source : IDA, records.

IDA does not appear to have any strategy for land development within Indore. Its only justification for claiming large tracts of land for acquisition is the Indore Development Plan prepared in 1974. It has been difficult to discern any rationale for IDA's land acquisition process. Since 1980, it has declared 2198 Ha. of land for acquisition. (A news paper report suggests that 4195 Ha. of land is declared under acquisition).

Of these, nearly one-fourth of the land had to be denotified or handed over to other parties due to encroachments and regularization of illegal colonies. Another one-third of land is locked under litigations or stay orders from the judiciary. In fact, IDA has been able to fully develop only 13 Ha. of land and another 850 Ha. are under process of development.

Table 3.4.

Land Acquisition by IDA - 1980 to 1988.

Land declared for Acquisition under schemes.

Sl. No.	Year	Residential use (Ha).	Mixed Resi-dential	Non residen-tial (Ha)	Total (Ha)
1	1980	13	34	4	49
2	1981	466	106	288	860
3	1982	74	0	6	80
4	1983	1	310	-	311
5	1984	202	-	7	209
6	1985	2	-	-	2
7	1986	2	529	141	672
8	1987	-	-	11	11
9	1988	-	3	1	4
Total 9 years		760	980	458	2198

Source : IDA, Annual Report, 1988-89.

Table 3.5.

Land Acquisition by IDA - 1980 to 1988.

Legal Status of type and use of various land.

Status	Residential (Ha)	Mixed Residential (ha)	Non-Residential (Ha)	Total (Ha)
All land acquired and developed	1	3	9	13
Land acquired and being developed	464	106	286	856
Acquisition under process (stay order scheme preparations etc)	121	533	149	803
Land given to other parties. (Encroachmen, regularise, exceptions)	174	338	14	526
Total (Ha)	760	980	458	2198

Source : IDA, Annual Report.

Table 3.6.

Construction of Core Houses for "Aranya" EWS by IDA.

Sl. No.	Year	Targetted construction of core houses	Actually built core houses	Total expenditure
1	1985-86	900	900	Rs. 70.70 lakhs
2	1986-87	2000	2000	Rs. 77.60 lakhs
3	1987-88	1100	1100	Rs. 33.15 lakhs
Total		4000	4000	Rs. 181.45 lakhs

Source : IDA, Report on Aranya Township.

The relative monopoly of IDA is often used to its own advantage in land disposal. The lands are generally acquired for Rs. 3 to Rs. 15 per sq.mt. from land owners. Its developmental costs (cost of land servicing) is between Rs. 50 to Rs. 100. Yet, it sells land at Rs. 125 to Rs. 500 per sq.mt. depending upon the category of plots.

LAND DEVELOPMENT BY PRIVATE AND POPULAR SECTOR.

General:

As explained earlier, Indore does not have much popular sectors land development now. All most all the land is developed by the public sector agencies such as IDA (upto 10 percent) and the private sector developers. The private sector developers are commonly called "Colonisers". Colonisers in Indore are equivalent of the Organisers of Ahmedabad. However, the organisers of Ahmedabad are equipped with better quality and range of professional skills, their range of activities span from land purchase to all the way upto providing finished house, and mobilise resources from a wide range of sources. The colonisers, one can say, are still in evolving stage.

Colonisers contribute for around 90 percent of the developed land market of Indore. From this, some estimates suggests that major portion, around 45 percent, go to the MIG sector, and around 35 pecent go to the HIG sector. Only 20 percent goes to the LIG and EWS sectors. This is true if we consider only legal or licenced colonisers.

Colonisers in Indore can be grouped into three categories ; the commerical colonisers with licences who constitute around 60 percent of the total colonisers. The remaining two, the quasi-legal colonisers who develop problem - land and the informal colonisers who set-up unauthorised colonies, constitute the rest of the 40 percent of the market. These two categories cater to the LIG and EWS sectors. As commercial colonisers deal with the largest share of the land development market, and are price as well as trend setter, we will look at the land development process in Indore keeping them in mind.

One of the main reasons for the considerable number of quasi-legal and informal colonisers is the sluggish legalities. Obtaining the correct titles, colonisers licence, etc. is difficult. Also, it is very cumbersum to deal with the land under ULCR Act. Both these cause project uncertainities and time-delays, making land development projects non-viable. The quasi-legal colonisers and the informal colonisers develop problem land and also build structures on it. It is difficult for authorities to check such developments as they do not have any mechanism for enforcement.

Inspite of the rapid rise in the construction industry, 80 percent of the builders/contractors out of around 600 in Indore, concentrate their activities in building water supply and sewerage networks, manholes, and roads. From the remaining 10 percent of the builders, most of them build shopping complexes, offices, and government projects. While only 15 percent build houses or tenements. Thus, residential sector lacks professional builders and contractors, leaving the people to buy developed land and build on their own through labour contractors.

Case studies suggested that from the total land developed by commercial colonisers, 80 percent is bought by the actual user-owners but as much as 15 percent is bought for investment and speculation purposes. 1 percent to 5 percent of plots are used up in pay offs and such related activities.

Process and Content:

If we include all the activities related to land servicing as well as actual sale of the developed buildable plots, following is the process and time table followed by commercial colonisers.

Time Table.

Land Developments:

a.	Identify piece of land negotiate purchase mobile resources for purchase Actual Purchase.	3 to 4 months
b.	Development Permissions colonisers licence Assembly Design and layout Book Brokers Marketing.	4 to 5 months
c.	Actual Servicing Boundary_wall lay down Roads, Sewerage network Water Supply network, Culverts public plots.	6 to 8 months
d.	15 percent plots sold)	
e.	50 percent plots sold)	12 months
f.	70 percent plots sold)	
g.	All plots sold	12 months
	Total time taken for the Project	36 to 40 months.

The quasi-legal colonisers finish the process in 12 to 16 months instead the usual three years time. While the informal colonisers finish the project even faster; party because they do not have to spend time in legalities, and also it is important to do such things as quickly as possible before the authorities come to know of it.

Plot Size:

Following are common size and cost of buildable plots in Indore provided by commercial colonisers.

Plot size in feet	Land Price Rs./sq.ft.	Dev. charge Rs./sq.ft.	Total cost Rs./sq.ft.	Price Rs./sq.ft
50 x 80	25 to 65	25 to 40	50 to 100	100 to 200
40 x 60	15 to 25	20 to 30	35 to 55	70 to 110
30 x 40	8 to 10	10 to 15	18 to 25	35 to 50
30 x 50	8 to 10	10 to 15	18 to 25	35 to 50
20 x 40	4 to 8	8 to 10	12 to 20	25 to 40
20 x 30	4 to 6	8 to 10	12 to 20	25 to 40

Plots provided by informal colonisers are 20 x 30 and 15 x 30 in size, and cost Rs. 15 to Rs. 25 per sq.feet.

Brokerage:

In Indore, agricultural land is directly bought from the individual farmers as there are no land holders in the market. However, there is a large number, around 600, land brokers in the city. They operate at both the ends, at helping buy agricultural land for the commercial colonisers as well as help buy developed buildable land to individual owner-users and investors.

Brokerage fees are charged on both the sides. There are no fixed rates, the fees depend upon the clients' need and immediacy. However, for the successful completion of a deal of agricultural land, brokers charge 1 percent to 2 percent of the actual cost of land as fees to both the parties. In general fees are low, as even the non-farmers can buy farm-land in M.P. Also, regulations against fragmentation of farm-land are lenient.

At the consumer end of the activities, it is not common for owner-user to buy buildable plots directly from colonisers. Based upon the location and plot size, the coloniser decides the main target group in terms of HIG, MIG, or LIG. Club houses, Play ground, tar road, Trees, Legal electricity connections, etc., are main elements in attracting up-scale and larger number of clients. Though water supply and sanitation are a big problem, they are not even mentioned. Once the consumer decides the location and size of the plot required, they approach to various brokers in the city. There are around 600 in Indore. The high number is due to the speculative nature of market in the city. The brokers buy and sell land among each other as well as to the speculators. The brokers are well organised and even have a lobby in the State Assembly. However, since 1984, land speculation has been in recession. Two consiquitive droughts have affected the general economy of the city which is mainly trade and transportation. Another reason is the strict enforcement of colonisers' licence requirement by the current administration.

People in need of housing buy buildable plots and build their own house over a period of time through labour contractors.

Quasi-legal and Informal Colonies:

These colonies are built on the government land, on the land proposed to be acquired by IDA, and on agriculture land. Once the colony is built, over a period of time it is regularised and some settlement is reached. People who buy plots in these colonies are those who have no access to the plots provided by the commerical colonisers due to high prices, and also have no access to the government plots due to formalities. These people such as rickshaw drivers, cart pullers etc., are informed about such colonies through their fellow workers, slum lands, pamphlates, and onsite offices. The actual cost of land and development cost have to be paid up in cash up front. The rest of the amount can be paid in installments of Rs. 100.

Those who cannot buy plots can rent plots in such colonies, often one family will have "patta" in several slums, or unauthorised colonies. They charge Rs. 100 to Rs. 300 as monthly rent. The going rate of "Paghadi" (or key money) is Rs. 6000 in some well located colonies.

The problems with these quasi-legal and informal colonies is that often more than one person is sold the same plot. As there are no papers, there is no way of knowing. Only when one of the several owner goes to the District Land Record Office to get ownership certificate, or goes to get any of the aminities, such frauds come to light.

In order to provide plots for the EWS, the current procedures now requires 50 percent of the plots in a colony to be set aside of the EWS category. If this is not followed, the collector gives a notice for taking over the possession of such plots. Though this has not been actually done.

Resource Mobilisation:

Finance is not a major constraint for the commercial colonisers as well as the others. Most of the colonisers have multiple occupations, such as building material supply, printing press, trading etc. These businesses generate surplus, offer in cash, that are diverted to land development as working capital as well as investment. Also, Indore seems to be poor in tax collection; income, excise or municipal. This generate considerable cash which is again diverted to the land market.

Thus, most of the finances are mobilised from private and individual sources. Colonisers do not use institutional finance as it will be available for only a certain percent of the value shown in the documents. The real value will be far higher, and as a result, institutional finance will be very small percentage of the real need of the colonisers. Also, institutional finance will force them keep accounts in certain manner, these accounts will have been made available to the financing institution. These two reasons make institutional finance unrealistic for the colonisers.

Terms and Conditions:

Speculators do not invest in projects that go on more than two years. Lending from private sources; individual or commercial, is at the interest rate of 24 percent per year. It goes as high as 36 percent and as low as 18 percent, depending upon the situation. Payment for the land has to be made by the time the land is developed and is ready for sale. The construction material suppliers provide credit of six months.

Pricing:

Following is the pricing method employed by the commercial colonisers:

10 percent land used for amenities,
20 to 25 percent land used in roads and lanes,
15 percent for EWS at low price,
50 percent total land in non-profit use,
50 percent remaining land for plots for sale.

So price plot will be twice the price of land and cost of development, and at least 50 percent profit.

Timing:

Crucial time for finance is during the purchase of the farm-land by the colonisers. Availability of finance strengthens colonisers bargaining power. The second must crucial time for finance is when the 40 percent of the plots are sold, the actual costs are recovered, and the sale of the remaining plots will determine the profitability of this project and the capital needs of the next project.

Appraisal and Issues:

1. The colonies in the city limits and in the surrounding rapidly developing areas have remarkable differences in character, nature and process of development. The colonies within the city limits tend to serve the LIG and MIG groups, provide smaller plots, have few public amenities such as schools or common plots, and were developed in a phased manner. However, the colonies in the vicinity of Indore, within the radius of 20 kms. or so, serve the HIG groups. The development is like farm house type, with good amenities. These colonies develop very fast, have a lot of "investor" members.

2. Another major issue of land servicing in Indore, that of the lack aof enough professional "builders". Colonisers concentrats on land servicing. The members buy buildable plots and build over a period of time through labour contractors. Framework of institutional set-up such as institutional finance, skilled staff and personnale, etc. will allow the labour contractors to expand activities and take up the role of builders. Equally important will be scale of operation and construction technology. Availability of professional services of architects, planners, engineers, site supervisors and realistic institutional finance will increase the number of participatns to develop serviced plots and house.

A Case Study of a Colonizer:

This is a case of a colony developed in the guise of a co-operative society. A large piece of 456 Acres was bought from farmers at Rs. 75,000/- per acre in 1983. Half of the amount was paid within six months of the `agreement to sell'. initially only 5 percent of land price was paid to the farmers.

The colonizers has developed 200 acres and has enrolled 7000 members so far. The process of membership enrollment is as follows. First, the applicant pays the downpayment in a prescribed Bank (a Co-operative Bank which provides working capital loan and overdrafts to the developers). The bank receipt is filed with the colonizers. The applicant signs a contract that the remaining amount will be paid in four quarterly installments during the next year. On the full repayment, land ownership is transfered to the applicant.

The applicant has an option to become a member of a Co-operative housing society formed by the colonizer. The coperative arranges loans from a Bank. The maximum loan amount available to the applicant is 60 times the monthly income of the applicant. Repayment period is 20 years and the interest rates vary between 10 to 13 percent per annum.

It is seen from Table 3.7 and Table 3.8 that the colonizers do not distinguish prices by lot sizes. The land costs and development charges are applied across the board for each plot size group. The development charges are for roads, open drains, water connections and land for community facilities like parks, play grounds and school.

Nearly 30 percent of the plots are 2400 to 4000 sq.ft. 50 percent plots are in the range of 1200 to 1500 sq.ft. and the rest are in the range of 600 to 800 sq.ft. Plots along the main roads are designated as mixed use plots, which are three times more expensive than the interior plots.

Table 3.7

Land Development by Colonizer and Pricing of Residential Plots.

Sl. No.	Plot size	Registration fees	Land price at Rs. 4 /sq. ft.	Development charge Rs. 8/sq.ft	Supervision charge per plot	One percent to the co-op for expenditure	Plot registration cost/expenditure	Total 3 + 8	Minimum amount for plot registration	Remaining Development charges in one year in four instalments.
1	50 x 80	205	16000	32000	100	480	4100	52885	36725	16160
2	40 x 60	205	9600	19200	100	208	2500	31893	22197	9696
3	30 x 50	205	6000	12000	100	180	1800	20285	14225	6060
4	30 x 40	205	4800	9600	100	144	1500	16343	11501	4848
5	20 x 40	205	3200	6400	100	96	350	10359	7119	3232
6	20 x 30	205	2400	4800	100	72	350	7927	5503	2424

Table 3.8

Pricing of mixed use plots.

Sl. No.	Plot size	Registration fees	Land price at Rs. 12/sq. ft.	Development charge Rs. 8/sq.ft	Supervision charge per plot	One percent to the co-op for expenditure	Plot registration cost/expenditure	Total 3 + 8	Minimum amount for plot registration	Remaining Development charges in one year in four instalments.
1	50 x 80	205	52800	35200	100	880	3100	95285	59733	35552
2	50 x 80	205	48000	32000	100	800	5600	86705	54385	32320
3	40 x 60	205	28800	19200	100	480	3700	52485	33093	19392
4	20 x 15	205	3600	2400	100	60	350	6715	3715	3000

IDA AND THE PRIATE COLONIZERS.

With the express purpose of overseeing planned and orderly growth of Indore, IDA is required to provide technical services to colonizers for payment of fees. It charges ten percent of the cost of development as betterment charges from the colonizers. This charge is levied for provision of off-site infrastructure. However, the water supply network is rarely extended to the colonies and underground sanitation or drainage network covers only one-fourth of the present Indore Municipal Area. The colonizers are thus reluctant to pay for betterment charges.

In addition, it charges 2 percent as its profesional fees to supervise land development by colonizers who have the necessary liscence. It is also empowered to levey development charges of Rs. 0.10/sq.mt. for 50 sq.mt.

IDA has to certify that the colony is in conformation with the Master plan and that the titles are clear and legal. It also has to certify that the road widths, drainage, water supply, sanitation (if any), within the colonies mmets the prescribed standards. The inordinate delays in obtaining colonizers liscence, non-agricultural use permissions, clearance from urban land Ceiling Act, and the certification from IDA, causes uncertainities and time-overruns. Since IDA has no mechanism to check unauthorised development, the colonizers find it attractive to build quasi-legal or unauthorised colonies. Such colonizers `develop' land within a year, reach out to their clients through brokers and on-site offices and provide a convenient installment facilities.

The comparison of development costs and land prices of IDA and colonizers are difficult as the final product, the serviced land, is strictly non-comparable. IDA lots are usually fully serviced, whereas the colonizers projects, except for the up-market segment, are rarely serviced. There is also a question of legality of land title and various other permissions.

The IDA, as in the case of the recent township of 2000 plots and 4000 sites and services lots, does manage to recover its costs through adequate pricing. It offers the EWS category plots at cost and the rest at 2 to 5 times the costs. Thus, in general, the pricing policy ensures adequate returns on each project. The private colonizers, on the other hand, charge a flat price of land and provide varying plot sizes. There is generally a marked similarity between IDAs land prices and the colonizers prices.

When we view both IDA and colonizers together, there seems a possibility of profitable joint venture. IDA has the legislative backing, access to land, and power to decide the location of projects. It also has to safeguard the interests of the public in general, and of weaker sections in particular. The colonisers, given access to finance, have the ability to do cost effective projects, often even profitable, due to its strategic planning, effective and timely implementation, and less overheads.

There seems a possibility for a joint venture where IDA provides land, and location, and safeguards the public interest, while the colonisers, with the help of institutional finance, carries on the project. This will require some technical help in IDA for financial monitoring to safeguard its interest. This will also be effective at level where 100 to 200 dwelling units are planned.

Chapter Four.

HOUSING UPGRADATION

The process of production of new housing on vacant land is probably equally matched by, if not surpassed by, the ongoing processes of housing upgradation and reconstruction. However, the flow of institutional finance for the latter, though theoretically available, is only a trickle. Our aim in this analysis is to ascertain the need for and potential of financing this important housing activity. It is, however, necessary to recognize that its importance comes from the possibility of achieving broader housing objectives. Therefore, it is important to explicitly state the broad objectives for financing housing upgradation. These may be:

i. To enable households to improve their housing consumption in a more cost-effective (compared to new construction), flexible (in relation to varying needs) and equitable (maximum benefits accuring to lowest income groups) manner.

ii. To preserve and improve the quality of the existing stock in order to enhance its life.

iii. To improve the quality of surrounding area or neighbourhood in order to create positive externalities for all users.

iv. To use the available developed and serviced land more intensively and to generate additional stock.

In order to assess the potentialities of financing upgradation, it is first necessary to understand the different forms of upgradation which are undertaken or are potentially required.

Based on an understanding of the housing processes in urban areas in India, it is possible to look at upgradation processes by scale (household or neighbourhood) and sectors.(formal or informal) It is also important to recognize the multi-dimensional nature of the activities involved in upgradation. We may identify these as improvement of (i) shelter quality, (ii) shelter size, (iii) access to utilities (especially water supply, drainage and sewerage and (iv) neighbourhood quality. These considerations will give a four way classification of forms of housing upgradation.

Fig 4.1 : Forms of Housing Upgradation.

	Formal	Informal
Individual Household	Increases in house size and/ or quality(1)	Improvement in house size, quality and utilities (2)
Neighbourhood/ community	Structural upgradation through public, private or popular sectors (3)	slum upgradation (4)

NEIGHBOURHOOD UPGRADATION.

In the systems 3 and 4 described above the fourth dimension of neighbourhood becomes more important. In specific instances even shelter quality and utilities may not be possible to improve through the efforts of individual households. (e.g. in older multi-storied chawls in Bombay, both shelter quality and utilities are dependent on the repairs and reconstruction of the entire building. Similarly, in slums (squatter areas) individual households can not add water taps or toilets unless the entire cluster is connected to the city network system). In terms of neighbourhood quality, the quality of exterior space, access roads and even structural conditions of large buildings are important considerations. All these generally require interdependent decision-making and/or high costs. Due to these, the realm of efforts shifts from the household to a larger group. This may be achieved through community management or through the efforts of an external private or public agency.

Forms of Neighbourhood Upgradation:

As compared to the upgradation by individual households, motivations for neighbourhood upgradation become more complex, depending upon the main agents. Thus, a community essentially formed of local residents may strive for upgradation in neighbourhood quality largely to derive use values. The nature of activities may range from improvement in structural quality of buildings, provision and/or upgradation of utilities and a general improvement in the quality of physical environment (especially access roads, open spaces, and landscape). On the other hand private sector's motivations may be profit maximization. The public agency's perspectives may generally be limited to certain social objectives like ensuring minimum standards of utilities (as in a slum or chawl upgradation programme) and/or safety considerations for the structurally dilapidated buildings.

It is possible and useful to divide the neighbourhood upgradation into two main forms. The first comprises of major structural upgradation for improving the quality and safety of shelter and buildings. This becomes essential when the form of residential development is such that individual households would find it difficult and almost impossible to upgrade shelter quality. The economic rationality of improving with repairs and renovation versus total reconstruction then becomes an important consideration. Similarly, it may be worthwhile to look beyond simple welfare objectives to understanding the economic logic behind upgradation.

The second form relates to relatively less complex tasks of improving only the quality of utilities and services. This may be necessary in both informal and formal settlements though the former's needs are likely to be more acute.

STRUCTURAL UPGRADATION.

Urbanization, and especially the high growth of urban population, is a relatively recent phenomenon in India. Many cities have doubled their population in the last fifty years. Therefore, a considerable volume of housing stock in our cities is now facing obsolescence. It is of course probably likelythat this process may have been accelerated due to certain institutional factors like Rent Control legislation. This may have made effective maintenance an economically unattractive proposition and, therefore, reduced the life span of these buildings. Whatever are the reasons, it is certain that the issue of structural upgradation or reconstruction will become increasingly important in some of our larger and older cities.

This picture is evident from the available data from Bombay and Ahmedabad, the two Textile centres of Western India. Both have a large proportion of housing stock built before independence. In fact, by 1981, the Bombay Municipal Corporation had identified over 30,000 buildings as being dilapidated and with a life span of less than 15 years. This probably represented over 25 percent of the total housing stock in Greater Bombay. D'Souza (1982) suggests that this is probably much higher as he finds the estimated 15 tenents per building to be a gross underestimate. This clearly reflects the very high magnitude of the problem.

Table 4.1

Housing conditions in Greater Bombay, 1980-81.

Dilapidated Buildings:		
i.	Beyond Economic Repair	1752
ii.	Life span less than 5 years	8707
iii.	Life span between 5 and 15 years	19778
		30237
Dwelling Units:		
	In dilapidated buildings (estimated). (assuming 15 tenements per building)	453555
	Total housing stock (as per table 1.1)	1590575
	Dwellings in dilapidated buildings as a % of total housing stock.	28.5

Source : Govt. of Maharashtra, (1981).

A large proportion of these dilapidated buildings in Bombay are the `chawls', which are walk-up buildings with small one to two room dwelling units, generally with shared toilets. They were built as rentals in the pre-independence era mainly to house the textile workers. Today, most of these have become dilapidated. To quote Sundaram (1985), "most of the buildings in the Bombay Island were constructed mainly with a timber framework and brick masonary walls, using lime mortar, teak wood or jack arch flooring. The saline weather of Bombay affects all buildings adversely." The salty and humid weather and severe monsoons have probably helped to accelerate deterioration. Severe housing shortages, and the resultant high occupancy rates have also strained these buildings. Added to all these is the disinterest

Table A 4.1

Performance of Repairs and Reconstruction Programmes in Bombay Island.
1970 - '71 to 1987 - '88.

Year	Repairs		Reconstruction				
	No.of buildings repaired.	Total expenditure (Rs. million)	No. of Buildings constructed	Tenements: Residential	Tenements: Non-residential	Tenements: Total	Total expenditure including trasit camps (Rs. million)
1970-71	17	2.85	-	-	-	-	4.72
1971-72	248	33.97	-	-	-	--	2.84
1972-73	658	40.47	-	-	-	-	5.37
1973-74	637	43.42	3	131	4	135	8.94
1974-75	570	41.07	2	49	-	49	15.63
1975-76	587	66.43	7	484	19	503	20.00
1976-77	468	65.00	9	758	65	823	34.71
1977-78	448	67.68	36	2731	117	2848	53.35
1978-79	1013	69.23	21	1991	107	2098	27.21
1979-80	652	48.16	13	1248	38	1286	51.06
1980-81	579	59.73	21	1357	37	1394	33.23
1981-82	569	69.70	15	865	33	898	23.17
1982-83	829	79.17	23	1331	76	1407	54.60
1983-84	539	106.04	13	955	77	1032	77.64
1984-85	834	126.50	12	780	63	843	67.45
1985-86	821	104.99	9	759	53	812	29.71
1986-87	800	127.23	14	962	-	962	59.13
1987-88	840	173.81	18	142	13	1086	58.67
Total	11109	1325.45	216			16176	627.43

Source : Bombay Housing and Area Development Board.

of the landlords due to the low rents frozen at 1940 level under the rent control legislation. Many buildings have been severely affected and cases of house collapses, especially during the monsoons are common and increasing. "In the eleven years from 1976, nearly 1300 houses collapsed in Bombay, averaging 118 collapses a year, and dishousing 2135 people". (Government of Maharashtra, 1981, p. 12).

For Ahmedabad, detailed surveys of dilapidation of buildings are not available. However, on the whole, at least one-third of the housing stock is more than 50 years old suggesting the possibility for major repairs and redevelopment or total reconstruction. These proportions are more significant in the traditional market segments, specifically in the chawls and pols. Pols are the traditional residential areas in the walled city. Physically, these consist of a group of houses ranging from 100 to 500 in number, clustered around narrow and meandering streets. Although, originally each building (two to three storeyed) housed a single household, over the years substantial subdivision, largely in the form of rentals has occured. Today the occupancy rates in these 100 year old buildings are generally quite high. Almost a fifth of the households in Ahmedabad reside in this type of housing.

Chawls represent low-income rental housing. Physically these are small ill-ventilated one to two room houses grouped around narrow streets with shared facilities. Densities are very high. These chawls were generally constructed between 1920 and 1950 as low cost rental housing, Their structural condition is generally poor and a lack of effective maintenance has led to very dilapidated situation. In the Ahmedabad Urban Area, about 12.5 percent of the households resided in chawls by 1981. It may be highlighted that visually there is little to distinguish these from `slum' settlements. Although the quality of materials is somewhat better and tenure is legal, neighbourhood and structural conditions are very poor.

Table 4.2

Distribution of Housing stock by Age and House Type in Ahmedabad - 1984.

Age of house	House type					Percentage of total housing stock
	Hut	Chawl	Pol	Apartment/Tenement	Row House/Bungalow	
10 or less	22.7	12.1	5.4	38.6	6.5	20.4
11 to 25	42.9	15.7	2.7	41.6	25.3	27.5
26 to 55	23.5	37.9	34.8	18.8	40.9	30.4
56 to 75	4.2	19.0	33.0	0.0	21.4	13.2
75 or more	6.7	14.5	24.1	0.0	5.2	21.7
Unspecified	0.0	0.8	0.0	1.0	0.7	8.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source : Based on Mehta and Mehta, (1987).

PAST PROGRAMMES FOR REPAIRS AND RECONSTRUCTION IN BOMBAY

Despite the recognition of the importance of preserving and upgrading the existing housing stock, there has been paucity of any planned attempts on this line. Ahmedabad, like most other Indian cities, has paid almost no attention to this aspect. A solitary attempt at redevelopment of a chawl by the Ahmedabad Municipal Corporation has been abandoned halfway. In contrast, however, Bombay presents an unique case of systematic planned intervention for repairs and reconstruction, not only in India but perhaps also in Asia. This was initiated through the enactment of Bombay Building Repairs and Reconstruction Board (BRRB) Act in 1969 by Government of Maharashtra. Under the Maharashtra Housing and Area Development Act of 1976, along with the erstwhile Maharashtra Housing Board, Slum Improvement Board, and Vidarbha Housing Board, BRRB was merged to form MHADA. Thus at present the repair and reconstruction needs of old buildings are taken care of by MHADA, through its zonal office of the Bombay Housing and Area Development Board (BAHDB).

Process of Repairs/Reconstruction.

The basic process involved in the activities of BAHDB for structural upgradation may be distinguished in terms of repairs and reconstruction. The process is quite systemized."In order to identify the programme of structural repairs to be taken up during each year, a ward-wise priority list is prepared on the basis of notices issued by the Municipal Corporation regarding the dangerous condition of the buildings"*. Besides, representations made by the occupants, landlords, social workers or the local political representatives are also taken into consideration. Based on these, the buildings are inspected by the officials of the BAHDB before taking on the priority list.

Once a building is identified and declared as dilapidated, the work is entrusted to a panel of architects to prepare plans and estimates for the necessary repairs. The Act defines structural repairs broadly to include repairs or replacement of structural components, with if necessary a change in the mode of construction, all parts which have common access like staircases, passages, terraces, utilities or roofs. The main rationale is to be the repairs to increase the life of the building by atleast 15 years. There is, however, a statutory limit on the maximum cost of repairs, beyond which it is considered economically unviable to repair and, therefore, the option of total reconstruction is advocated. (See Table 3.3). These limits have been revised over the years to keep pace with inflation (see Table 3.3). In reality, in some buildings, the parts which have not been repaired may show distress in a shorter time span, even 5 years. The Board also may take up a building for repairs again as long as the statutory limit on the costs is not exhausted.

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*All the cessed buildings are kept on a routine watch by the Bombay Municipal Corporation to issue notices to landlords as and when necessary.

Table 4.3.

Limits on maximum costs for structural repairs.

Date	Limit (Rupees per sq.m)
1965 to 1974	75.0
1974 to 1980	120.0
1980 to 1983	200.0
1983 to 1986	300.0
From 1987	500.0

Source : BAHDB.

In case of buildings beyond economic repair, the building is considered for reconstruction. To avail this option, however, the Board has to first acquire the land from the original landlord and ascertain that the tenants are willing to bear the extra cost above the limit. The sitting tenants are generally shifted to transit camps while the construction is going on. This is often inconvenient due to the tariff locations of these camps. The tenants are also unwilling to shift due to a fear of losing their tenancy in the burecratic procedures. The reconstructed buildings are owned by BAHDB and the tenements are given on a rental basis, often at subsidized levels.

Public-Private Partnership.

Although, during the initial years, the process was totally dominated by the public agency, over the years a number of changes have been introduced to enable it to become more participatory. The changes have been introduced in three important aspects. The first, BAHDB has begun to permit the and/or landlords to get involved in the execution work related to repairs and/or reconstruction. Thus, a society formed by tenants with their representatives or the landlord/owners of the cessed buildings are granted no objection certification (NOC) to carry out the necessary works related to repairs or reconstruction. In fact since 1983-84, for about 40 percent of the total 1703 buildings taken up for repairs by 1988, the work was handled through such NOC holders only.

The second change is mainly through an amendment to the legislation which applies to all buildings constructed before 1940 (i.e. category `A'). As per this amendment, the occupants of a cessed building can form a co-operative society with at least 70 percent of occupants as members, and then can request Government of Mahrashtra in writing to transfer the ownership of the land alongwith building thereon in favour of the co-operative society in the interest of its better preservation or for reconstruction. The society has to pay to the Board the amount of compensation required to be paid to the owner for acquisition. The amount of compensation is equivalent to 100 times the net average monthly income actually derived from the building during the five consecutive years immediately preceeding the date of publication of the notification (MHADA, nd.). The impact of this amendment can be to encourage the co-operative societies of occupants of old buildings to participate in the conservation process without waiting long for the public agency to take up the responsibility. The co-operative can entrust the repairing work to any private builder as per competitive bidding.

These alternatives suggest six distinct forms of structural upgradation, either repairs or reconstruction as illustrated in Fig. 4.2. Of these, originally only the forms 1 and 5 were predominant. As with any system which inhibits popular participation, even if some amount of structural upgradation has occured, the level of satisfaction is generally low due to total alienation of the occupants from the entire process. This alienation of course also affects the willingness to share the costs or pay the increased rents or cess changes after reconstruction and repairs respectively. We discuss these issues further later on. As the onus for both identifying the work and supervising shifts to a society of tenants in forms 2,3 and 4, the quality of work, and equally importantly, the satisfaction with it tend to increase. The benefits are likely to be more in terms of an enhancement of use values or utility derived rather than direct monetary gains. In these forms, the supervision on architects and contractors can also increase significantly. It is of course likely that BAHDB officials will not give up their authority in these matters easily which has been persisting for the last 20 years. The last form of a tri-patriate arrangement amongst the original landlord, a private developer firm and an association of tenants is likely work especially in cases where it is possible to reap profits and significant rates of return for the developer though utilizing extra floor space potential for either luxurious residential or non-residential purposes. The simple provision in the present practise of requiring the owner to accommodate all sitting tenants in the new development before granting him an NOC would help to protect the rights of tenants. However, it may be necessary to organize the tenants in most areas and generate an awareness amongst them for their rights.

Figure 4.2

Different forms of Repairs/Reconstruction in Bombay.

Executive Agency	Tenure - Ownership		
	Original landlord	Society of tenants	BAHDB
BAHDB	Repairs 1	Reconstruction 4	Reconstruction 5
Society of tenants	Repairs 2	Repairs or Reconstruction 3	
Landlord with a private developer and tenants' association	Reconstruction 6		

Resource Mobilisation, Expenditure and Achievements:

There are three main sources which form the financial base of repairs and reconstruction programmes undertaken by the BHADB. These are:

- Cess levied by the Government of Maharashtra on residential buildings depending on its year of construction. Annually about Rs. 100 million is collected. All buildings are divided in three categories as built (i) prior to September, 1940, (ii) between September 1940 and Novemeber, 1950, and, (iii) between December 1950 and September, 1969. Certain buildings like those by the private agencies or co-operative socieites and owner-occupied are exempted. The cess is based on the age and "their assessed value for municipal property tax (rateable value)". The landlord of these buildings is liable for 10 percent of the assessed value and the rest is to be paid by the occupants. The local authority collects this tax, retains 5 percent of the collections as administrative charges. The rest is handed over to the State Government, which passes it onto the Repairs Board. (D'Souza. 1982).

Table 4.4

Cess Levied on Residential Buildings in Bombay.

Date of construction	Classified as type	Cess rate as percent of Rateable value.		
		Before Repairs	After Repairs	Number of Buildings.
Before 1.9.1940	\`A'	25	40	16,502
1.9.1940 to 31.12.1950	\`B'	20	30	1,489
From 31.12.1950 to 30.9.69	\`C'	15	20	1,651
				19,642

Source : D'Souza, 1982) and BAHDB.

- Statutory contribution by the State Government and the BMC at Rs. 36 million per annum each as a grant. (Sundaram, 1985).

- Ad-hoc grant-in-aid from the State Government of about Rs. 50 million per annum (Sundaram, 1985).

In addition to these, the other sources are:

- The amount in excess of the ceiling cost collected from beneficiaries in reconstruction scheme.

- Finances are also generated from other institutional sources like GIC, UTI or recently even HUDCO. Sundaram, (1985), estimates these at about Rs. 50 to 100 million per annum.

On the whole, since its inception, the expenditure on this scheme uptill March 1986 amounted to Rs. 1327.4 million for structural repairs and Rs. 637.44 million for reconstruction over a period of 16 years. In the last few years the average expenditure has been about 190 million per annum on the total repairs and reconstruction programme.

Though BHADB's contribution to conserve old housing stock is unique on the scene of Metropolitan Housing Markets in India, what has been done, needs to be compared with what ought to have been done in order to identify the strengths and weaknesses in such institutional inputs. Using the 1981 survey reports as the basis, as compared to the 1752 buildings which were beyond repairs and another 8707 with a life span of less than 5 years, only 216 buildings have been reconstructed over the 18 year period. In the last 4 years from 1982-83 to 1985-86 probably about 50 buildings have been rebuilt with around 4000 new tenements. Thus, the performance has been far short of targets or requirements.

As against the rather poor performance for reconstruction, the repairs activity has been more vigorous. Over the years some 11,000 buildings have been repaired and apparently, the process has been accelerated in recent years. It is of course not known as to the quality of repairs actually carried out. However, GOM (1981) indicates that of the 19 buildings which collapsed in 2980, "42 percent of collapses occured where the buildings had been repaired". This may suggest the need to do a more rigorous analysis on the economics of reconstruction versus repairs debate.

Table 4.5

Performance of Repairs and Reconstruction Programme.

	Repairs		Reconstruction			Total Expen- diture (Rs million)
	Number of buildings repaired	Total expen- diture (Rs. million	Number of buildings	Number of new tene- ments con- structed	Total expdn- diture (Rs. million)	
Upto March 88	11109	1325.45	216	16176	627.43	1952.88
From 1970 -1971 to 1979-80 (10 years)	5298	478.28	91	7742	223.83	702.11
From 1980-1981 to 1984-85 (5 years)	3350	441.14	84	5574	256.09	697.23
From 1985-1986 to 1987-88 (3 years)	2461	406.03	41	2860	147.51	553.54

Source : BAHDB, Refer Table A.31.

Besides these programmes, a recent massive investment has been preposed through the Prime Minister's Grant Programme (PMGP) for 20 Urban Renewal Schemes and 2 transit camps.The total cost estimates for UR schemes was around Rs. 590 million of which, Rs. 410 million has been earmarked from PMGP. The balance is to be generated from sale of tenements to owners. Work on 11 out of 20 UR schemes has been commenced and upto 31.4.1988 Rs. 70 million was spent and approximately 884 tenements are completed. The work on one of the transit camps also has been completed.The Government of Maharashtra has also issued a Government Resolution (GR) on 29.4.1988 bringing in liberalised terms of payment for ownership of reconstruct tenements. A subsidy of about Rs. 30 per sq.ft. (subject to a maximum of Rs. 7500/-) is granted; an attractive mix of interest free loan of PMGP and a balance loan from other financial institutions has also been prescribed. These additional cash flows will thus generate resources for project to invest further and it is expected that in 10 years the original component of Rs. 41 crores will have doubled.

Case Studies of Repairs and Reconstruction Work in Bombay.

The following description of case studies highlights the operational aspects of the repairs and reconstruction programme in Bombay. The cases selected were purposive, in terms of the modes presented in Figure 3.2. They were identified through discussions with BHADB (Bombay Housing and Area Development Board) officials and the architects who are on the Board's panel.

Case 1 : Repairs carried out by the BHADB.

A building consisting of 48 tenements, in Parel was constructed in 1929. 36 units on upper floors are used for residential purpose and 12 units are used for non-residential purposes (shops and small workshops).

The major repairs of the building included replacement of staircase, flooring materials in the corridors, repairs of toilets and replacement of a few structural members. The estimated cost of repairs was Rs. 500 per sq.mt. (Same as the prescribed maximum by the Board).

The occupants of the upper floors were invited to stay in alternative accommodation in transit camps located in the suburbs. As per the procedures, the occupants were required to continue payment of rents to the landlord at the old rates. However, not a single occupant agreed to be shifted. They felt that the transit camps were too far from their work places and were afraid of losing their tenancy rights in the property. They were, in fact willing to put up with the hardship of repair works of stairs and toilets.

The repair works, thus, had to be phased. In the first phase, one half the building was repaired. The work on the second phase is still incomplete.

Many residents have been staying here for more than 40 years, and have been paying Rs. 18 to Rs. 24 towards monthly rents. They are not willing to pay the increased rents to the board and the upward revision of the taxes, as they are dissatisfied with the work done by the contractor appointed by the Board. On the other hand, most non-residential users in the building have managed substantial upgradation of their units through extra payment to contractors.

Case 2 : Repairs by a Society of Tenants.

The building consisting of 42 units was built 45 years ago. There are 29 units used for non-residential purposes and 13 units used for residential purposes. The tenants decided to form a co-operative society and carry out repairs by choosing their own architect and contractor. The repairs included staircase, corridor, toilet blocks and electrical fittings in common areas. Further, within each unit, flooring and structural members were repaired.

The procedure adopted by the tenants was to form a society and elect three representatives to deal with the BHADB. The representatives applied for a permission to repair the building and selected an architect from the panel of BHADB. The Board thus granted a No Objection Certificate, on scrutiny of the plans and ensuring that the building cess was deposited by the landlord with the Board.

The three representatives, refused to as NOC holders, command the Board's resources as well as the contributions from the members of the society. In general, these representatives ensure that the excess amount required for repairs (over and above Rs. 500/- per sq.mt. approved by the Board) is deposited by each member.

In this case, very few of the occupants of residential units have paid the excess amount. The repairs works, estimated at Rs. 750/- per sq.mt., has, however, continued largely through the funds mobilized from the occupants of non-residential units. These occupants, have also agreed to pay the enhanced rents, increased taxes and the maintenance charges required.

The residents have a monthly family income of Rs. 1000 to Rs. 1500. This compares well with the estimat of mean household income of Rs. 1423/- in certain cessed buildings of Bombay by Sharma et.al (1986). They had estimated that the tenants were willing to pay Rs. 150/- per month towards rents as well as loan installments for an improved structure. In this case, however, it is only the non-residential units that have been sharing the major burden of raising the finances resources and paying the enhanced rents.

Case 3 : Reconstruction through Ownership of Building Tenants Cooperative Society.

The property in Lalbaug area of Bombay is over 70 years old, consisting of 110 tenants. (61 percent of units are used for non-residential purpose). A part of the building had collapsed in July, 1986. The BHADB had earlier classified the building as `beyond economic repairs'. Reconstruction plans were set in motion after the partial collapse of the building.

This case is unusual, as it is one of the only four tenant's Co-operative Society formed under the revised rules of 1986 ordinance of MHADA Act, which provided for transfer of ownership to co-operative of tenants. Sharma et.al. (1986), had reported a poor response to this scheme in their survey.

A tenants co-operative society was formed and initially, nearly 90 percent of the tenants had agreed to pay the 100 month's rent required for the transfer of ownership right. Half of this amount was paid to the landlord and the co-operative society was registered under the Maharashtra Co-operative Society Act.

In so far, 60 percent of tenants have paid their share of 100 month's rents. Other 30 percent have partially paid the amount. The remaining ten percent households were judged (by the co-operative society) to be too poor to contribute their share and thus have been exempted from paying. The debris of the collapsed part of the building was `sold'.

Though, the society was registered in 1987 and the landlord was paid the dues in the same year, the reconstruction work for the collapsed part and the repairs elsewhere are yet to begin. The No Objection Certificate from the BHADB has not been issued as the list of tenants of landlord and the list of members of the co-op. society do not match.

The tenants of the collapsed building have been provided alternative accommodation in transit camps. They have continued paying the monthly rent of Rs. 30 - 40 to the co-operative society to maintain their stake in the building.

Once again, we observe that the primary reason for formation of the co-operative society is largely due to the prepondarance of non-residential occupants, who have little difficulty in raising the resources (100 times the monthly rent) for ownership. In fact, many of them have paid 800 to 1000 times of monthly rent as "key money" to become a tenant. The resisential tenants are more reluctant to become a part of the co-operative, as they feel that ownership of their unit would be an `uneconomical' proportion for them.

From the residential tenants perspective, ownership through a co-operative is not an attractive proposition, largely because the asset created through such a transfer would not be marketable. This is because the Act prohibits any legal transfer of ownership rights. The Act prescribes;

> "Save as otherwise expressly provided in this chapter and notwithstanding anything contained in any law for the time being in force, no co-operative society shall transfer such land or building or interest therein, or no member or tenant of the co-operative society shall transfer his interest in any tenant by sale, gift, exchange, leave and liscence, assignment or lease; any such transfer by the co-operative society of any land vesting in it by or under the provision of this chapter or transfer by the member or tenant of this interest as aforesaid shall be void" (Section 103 C(2) Maharashtra Housing and Area Development Act, 1976, as amended in 1986).

Case 4 : Reconstruction through Institutional Funding.

The building in Fanaswadi, Central Bombay, was built in 1902. It had 61 tenants. The building was classifed as beyond economic repairs. In 1976, the residents were shifted to transit camp located at Bandra and the demolition work had begun. The property was under public reservation in the development plan and it took nearly six years before the plot was dereserved. This delay caused the reconstruction costs to double and the tenants were unwilling to pay for it. HUDCO had just come out with its new scheme of financing repairs and renewals.

The BHADB decided to utilize the HUDCO financing for reconstruction.

HUDCO's funding is available for structural repairs, replacement of roofs and replacement or repair of sanitary fittings. It also provides finances for reconstruction and transit accommodation during the reconstruction period. The funding for repairs and renewal from HUDCO is limited to 50 percent of the ceiling costs prescribed by HUDCO for different income categories of new housing schemes. In case of reconstruction, the usual HUDCO terms and conditions are applicable.

The Board began reconstruction works in 1986. The tenants were required to pay Rs. 12,000/- (half of the estimated cost of the reconstruction), as per HUDCO's temrs of financing. Only 46 of the 61 original tenants paid the down payment. Most tenants, whose monthly incomes were in the range of Rs. 1200-1800, raised the resources from their employer, supplemented by personal savings or loans from friends. The construction work was campleted in May 1988 with 52 units. 46 of these units are occupied by the original tenants.

Case 5 : Reconstruction by a Private Developer.

A private developer in North Bombay, Malad, took up private land which had about 50 tenements, constructed by landowner as rental units. Through the plot was large (approx. 4000 sq.mt.), nearly 1200 sq.mt. were zoned for recreational purpose under the development plan. A road widening scheme was also going to result in a loss of about 500 sq.mt. of land. (under the prevalent rules in Bombay, density bonuses are given for land acquired under road widening programme).

Initial payments were made in 1985. The agreed price was one-half of the prevailing market price at that time. The tenants on the site were persuaded to vacate the site, but only 5 out of the 50 tenants vacated the premised for a payment of fifty to hundred thousand rupees.

The developer agreed to rehouse the remaining tenants in a separate building to be constructed on the site. As a group, the tenants were united and quite demanding. They got a promise of a residential unit of 320 sq.ft., as against their present area of 190 to 250 sq.ft.

The builder's logic in acceding to these demands were as follows. Firstly, he could manage to get the land at almost half the market price. The compensations paid to the few tenants, plus the construction of dwelling units for the sitting tenants would bring up the cost of the clear land to about 90 percent of the market price. The builders expectation of selling about 35000 sq.ft. of built-up area within the next two years, is likely to fetch him a net return on initial investment as equivalent of 25 percent per annum.

Apart from the profitability of the builders, the existing tenants, who had been paying Rs. 20 to Rs. 40 as monthly rent, would become owner of a residential unit without any investment. It is estimated that they will need to spend Rs. 100 to 150 per month towards utilities and municipal taxes in the new building.

The project which begain in December, 1985, took nearly six months of negotiations with landlord and the tenants. It has taken three years to get the necessary permissions and the construction work has just begun and the tenants are expected to move into their new houses within a year.

Angel and Boonyabancha (1988), describe similar experiences of land sharing in Bangkok. They find this as a positive alternative to eviction for the slum dwellers, a proftable venture, in the long run, for the landlord and saves the resources of the local government to rehouse or upgrade the dwellings of the poor.

CONCLUSION.

Bombay is the only city in the country that has had a major program of repairs and reconstruction. The evolution of the programme over the past decade indicates that the public agencies are unable to cope with the magnitude of the tasks. The recent amendments of public-private partnership in the form of tenant's co-operative society, has not been successful. Even efforts to pass on the maintenance of reconstructed buildings to tenants' associations has met with little success.

The private developers, on the other hand, are found to be active in reconstruction projects, where additional floor spaces are available. We find that in such projects, the tenants get a better house withoaut any payment and often the ownership of the unit. The builders also manage a reasonable rate of return on their investments.

Many of the problem associated with the public agency based repairs and reconstruction programme are of finances. The Board does not have the necessary resources to undertake the tasks, and the tenants are unwilling to share the costs of upgradation. In many of the cessed buildings in Bombay, there is little scope for additional built up area of the extent that is required for it to become viable for private corporate sector builders.

It is, however, possible to increase the permissible FSI of these units, or permit a transfer of development right to suburban locations for every reconstruction effort in central city

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