

Affordable Housing: A Study with Special Reference to Nellore

P. Mahesh*

This article aims at understanding the urban affordable housing requirements for middle class in India. It tries in identifying the triggering factors in the purchase decision making process and also in estimating demand for affordable housing. A significant number of middle class individuals in India do not own their homes. It is a cherished dream of middle class people to buy and live in their own houses. Ernst & Young Survey Realty Pulse 2008 found that depending on city, location and product offering, the price of an affordable house should range between Rs. 10 lakhs to Rs. 25 lakhs. Since 1991, 79% of the new job opportunities were generated in the urban areas, the focus of the affordable housing is expected to be urban centric. Nellore town in Andhra Pradesh is identified for conducting research. During the course of research it is found that the population of Nellore in 2011 is 564,148 (Source: Census India 2011) and the middle class population is estimated to be around 73,339. According to the survey, the total middle class households are estimated at 18,335 in Nellore. The survey found that 74% households are staying in rented houses.

Keywords: Affordable housing, middle class, urban housing, Aggregate demand.

Introduction

The slogan, “Roti – Kapda – Makaan” indicates the paramount importance attached by the Indian policy makers towards ensuring food, clothing and housing to the Indian population. In order to meet the pressing requirements for housing, a convergence of house prices and household incomes is essential. The Indian housing sector witnessed unprecedented growth during the period 2003 to 2008, leading to sharp increase in housing unit prices. The global economic meltdown and recession in the second half of 2008 had its impact on the housing sector also, leading to demand-supply mismatch. Aggregate demand declined as the funding options for the buyers got restricted, thereby impacting the affordability of the buyers. The affordability of a household in a given location is a function of price, income, spending and saving behaviour and the size of the household. The Housing Development Finance Corporation Limited (HDFC), the leader in the housing loan market in India, considers 5.1 times the annual income as the maximum affordability of a household.

The concept of Affordable housing has gained prominence in the last few years. Affordable housing in urban India is becoming a major challenge as the supply of affordable housing is falling short of demand. While the government has intervened and tried to provide affordable housing facilities to the below poverty line families, the left out in the process are the Middle Income Group or the Middle Class. Affordable Housing for the Middle Class is drawing attention in the recent years both from the government and policy makers.

Middle Class

The Indian Middle Class has been drawing attention from policy makers and companies as it is a vibrant group growing steadily in numbers over the last few years. According to National Council for Applied Economic Research’s (NCAER) Centre for Macro Consumer Research, which uses household income as criterion, a family with an annual

**Assistant Professor, Institute of Public Enterprise (IPE), Hyderabad, Andhra Pradesh*

income between Rs. 2 lakhs to Rs. 10 lakhs (at 2000-01 prices) falls in the middle class category. In 2011, the middle class households number 31.4 million and the middle class population of India is pegged at 160 million individuals.

The middle class is growing faster than any other segment. In the next five years, i.e., by 2015-16, Indian middle class will be numbering 267 million people accounting for 53.3 households. By 2025, middle class in India is likely to double from 2015 levels to 547 million individuals or 113.8 million households, and will account for 40% of the total population. Despite the anticipated growth, the middle class is still a minority vis-à-vis the total population. Please refer to fig. 1 & fig. 2.

Research Methodology

The research work is an exploratory study which is comparative in nature. The data required for the study is collected from both primary and secondary sources.

For the purpose of the study three hundred households are visited in and around Nellore town covering various residential areas and Housing project sites. Households are surveyed with detailed questionnaire covering various aspects of parameters considered while making purchase decision of a House.

The secondary data required for the study is collected from the official documents published by Ministry of Housing and Urban Poverty Alleviation etc.,. The techniques of analysis of the study include Correlation, Regression, Factor Analysis etc.

Affordable Housing for Middle Class in Nellore Town:

Nellore is the six largest city in the state of Andhra Pradesh. The city located on the banks of river Penna, is situated about 453 km from Hyderabad and about 170km from Chennai and connected by NH5. Nellore has a population of about 5,64,148 (as per the Census 2011). Krishnapatnam port in Nellore is the Asia's largest port. The factors which have aided the economy of Nellore to flourish are proximity to sea and fertile soil. The predominate occupation of the people of Nellore is agriculture, the cultivation of paddy, jowar, bajra, and also commercial crops like tobacco, sugarcane takes place. Apart from this, aqua culture and mining is also flourishing businesses in this area.

The real change in the demography, geography and economy

of Nellore can be traced and linked to the development proposal of Krishnapatnam port in the year 2006. The project with the estimated cost of 6,000 crore is proposed to complete by 2016, will create direct employment of 30,000 and indirect employment of 150,000. There are queue of big corporate planning their investment in the port corridor. To name few, Hyundai is planning to set up auto ancillary unit in Nellore; Hitachi is coming up with SEZ, Asia cement is planning to set up manufacturing plant, Doran Heavy industries to setup operations in Nellore. Apart from this IFFCO is planning an investment of 1,000 crore to set up a modern dairy plant. There are 10 Ultra mega thermal projects around the Nellore at various stages of completion with production capacity of 14,000MW, Reliance power is one of them with a capacity of 4000MW and with an investment of 17,000 cr. These projects when gets operational will not only serve the need of the industries around but also are planned to serve the power need of sates around. Due to huge inflow of companies into city, the real estate business has grown to new heights. From 2008 to 2010 there is a growth of 25% when it comes to number of transactions and by value it has grown by 63%. The land rates for lakhs an acre in 2008 has reached crores. Due to this high land prices and pollution in the city, suburbs like podalakuru road, are growing fastly.

It has been observed that the estimated demand for housing in the coming years in and around the project site is much higher than the expected. Affordable housing in the city limit and meeting minimum standards are the need of the hour in Nellore.

Demand Perspective

The potential buyers reveal various household characteristics giving an indication about the demographic profile of the residents of Nellore. The average household size in Nellore is about 4 members. In terms of occupation, 44% of the households are Self Employed (doctors, lawyers, business, etc). Please refer to fig 3. The major reasons for the growth of self employed group in this city could be attributed to the higher dependability on agri processing business, aqua culture, etc.

Interestingly, the survey found that generally the households in Nellore follow a self sustaining economic model with respect to their occupation. The sample households employed in public and private sectors 24% and 25% respectively. Please refer to fig. 3. Over the past few years due to the setting up of bases by private players in various sectors (energy, infrastructure, mining, food processing,

etc), the employment opportunities in the private sector has increased drastically, and this sector would have a bigger share in the pie in the coming years.

The survey being restricted to the middle class household's income within the bracket of Rs.2-10 lakh annual income; the entire sample is distributed within this income group. The income categories of Rs.2-6 lakhs constitute about 92% of the total respondents. Please refer to fig. 4. The rising business opportunities, setting up of bases by private players, and establishment of Special Economic Zones across the Krishnapatnam Corridor, are paving the way for higher growth and increasing income levels in Nellore.

According to the survey, 74% of the households are staying in rented houses and the average house rent per household in the city is around Rs.4000. Please refer to fig. 5. The real industrial growth in Nellore has taken off in 2006 after setting up of the Krishnapatnam Port and the economy of the city started growing exponentially over the years. Due to the industrial development, emergence of various power projects, other allied activities, the city has attracted large number of migrants from various parts of state/country for employment. As a result, the demand for housing has increased tremendously (especially, rented houses). The survey also found that 26% of households stay in their own houses.

As per the survey findings, about 57.2% respondents prefer budget for their future home in the range of Rs.12-20 Lakhs. Also, about 38.9% considered the range of budget for future home between 20-25 Lakhs. Please refer to fig. 6. In order to attract potential customers and to cater to the affordability of these segments, APRSCL need to prepare attractive pricing strategies and come up with products of excellent configurations.

Buyers Preferences

A majority of respondents (about 75%) are keen in purchasing houses which would meet higher quality standards during construction. The other factors that influence the choice for a residential project in a given location are adequate water supply, safety and security systems, un-interrupted power supply and peaceful and pleasant environment. Please refer to fig. 7. The size of the home is of the least important determinant in the choice of the housing projects.

According to the survey, in spite of the unfavourable economic conditions, approximately 53% of the survey respondents expressed their desire to purchase a house

within 12-24 months. About 24% wish to purchase a new house within next six months. Please refer to fig. 8. This desire can be catered to due to the rapid development of the city. The city has witnessed considerable infrastructure development in the recent years. In addition to this, the city has good rail, road and sea connectivity which has increased the attractiveness of Nellore as one of the real estate investment destinations in Andhra Pradesh.

A prospective customer's decision to buy a house in the city is backed by number of determinants like quality, location, amenities, etc. The preferences of respondents in terms of their budget and preferred house type (no. of bed rooms) were studied. It was observed from the survey that 88% of the respondents in Nellore have preference towards 2 BHK. The demand for 1 BHK and 3 BHK is minuscule. Please refer to fig. 9.

Conclusion

The population of Nellore in 2011 is 564,148 (Source: Census India 2011) and the middle class population is estimated to be around 73,339. According to the survey, the total middle class households are estimated at 18,335 in Nellore. The survey found that 74% households are staying in rented houses. Therefore, the total households, which are potential customers for affordable housing, could be estimated as 13751 units.

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ANNEXURE

Fig 1: Profile of India’s Income Classes

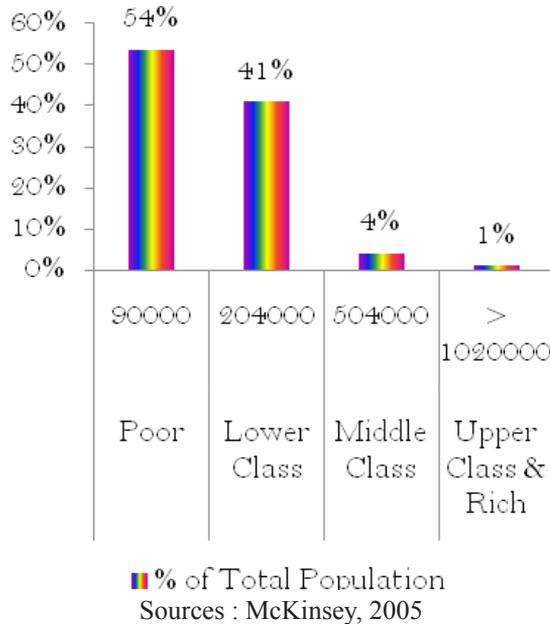


Fig 2: Growth of India’s Middle Class

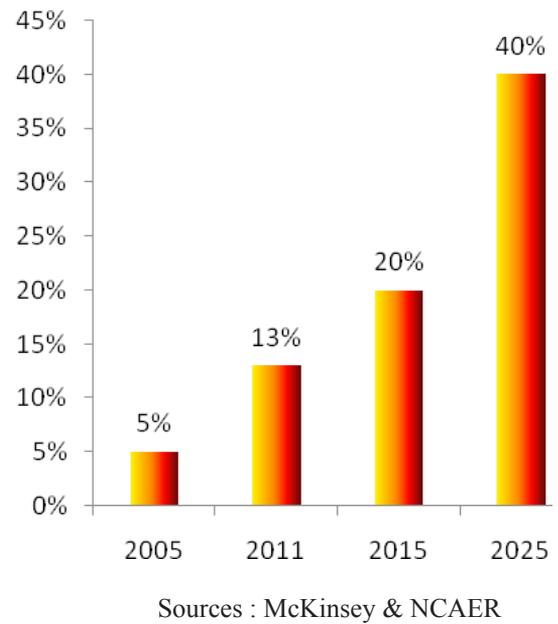


Fig 3 Sample Households According to Type of Occupation (in Percentage)

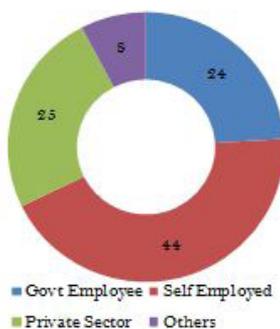


Fig 4 Sample Households According to Total Annual Income (in Percentage)

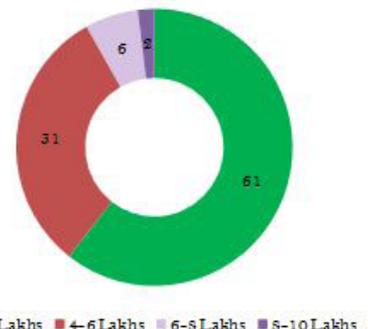
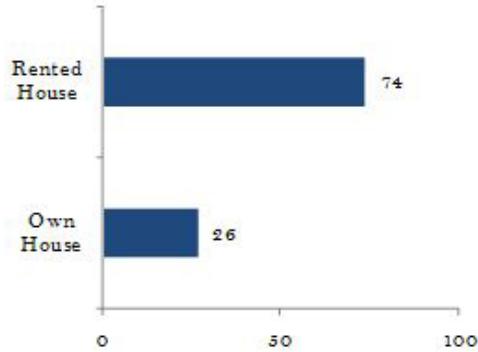
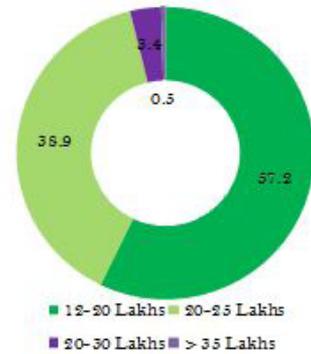


Fig 5 Sample Households Current Type of Home (in Percentage)



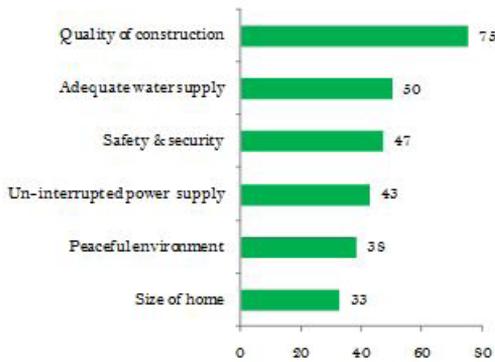
Source: Primary Research, 2012

Fig 6 Sample Households Preferred Budget for Future Home (in Percentage)



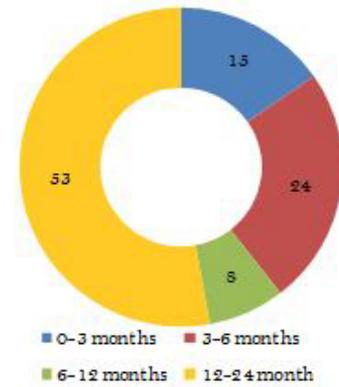
Source: Primary Research, 2012

Fig 7 Factors influence Choice of Residential Projects (in Percentage)



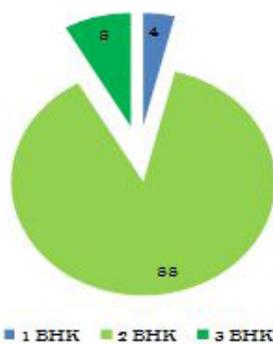
Source: Primary Research, 2012

Fig 8 Household Purchase Timelines (in Percentage)



Source: Primary Research, 2012

Fig 9 Sample Household Choice for Homes w.r.t Bed Rooms (in Percentage)



Source: Primary Research, 2012