How much do Indians pay for houses?

The median price of a house in a metro is Rs15 lakh compared to Rs2 lakh in an underdeveloped rural area

PLAIN FACTS

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NEW DELHI

If you thought home ownership was a sign of wealth and prosperity in India, think again. Unlike in the West, most poor people live in their own homes in India, and it is the relatively more affluent sections of Indian society that live on rent, shows data from a nationally representative consumer survey conducted this year.

Ninety-seven per cent of households belonging to the bottom-income quintile (or the bottom 20% of India's income distribution) live in their own homes, according to the *Household Survey on India's Citizen Environment & Consumer Economy* (ICE 360° survey) conducted in 2016. The proportion of households in the top-income quintile (or the top 20% of India's income distribution) who live in their own homes is relatively lower at 81%, shows the survey.

As you move from an underdeveloped rural area to a metro, the chances of renting a house increase, shows the survey. It also reveals a stark difference in how much top-income groups spend on home purchases compared to middle- and lower-income groups.

Overall, 89% of households stay in their own homes. Of those staying in their own homes, 57% live in inherited homes, 38% in homes that they have purchased or constructed on their own, and 4% live in homes that they have received as gift or dowry.

The ICE 360° survey was conducted by the independent not-for-profit organization, People Research on India's Consumer Economy, headed by two of India's best-known consumer economy experts, Rama Bijapurkar and Rajesh Shukla. The survey is among the largest consumer economy surveys conducted in the country.

The urban sample of the survey is comparable to that of the National Sample Survey Office (NSSO) survey. While NSSO surveyed 101,651 households of which 41,968 (41.3%) were urban households, the ICE 360° survey covered 61,000 households of which 36,000 (59%) were urban households. The rural sample of the ICE 360° survey is less than half of the NSSO sample. Nonetheless, all the estimates of each region have been derived by adjusting for the respective population of those regions.

A notable feature of this survey is that it is representative at the level of economic clusters. Urban India has been divided into four clusters: metros (population more than 5 million), boom towns (2.5-5 million), niche cities (1-2.5 million) and other urban towns (less than 1 million). Based on a district development index, rural India has been subdivided into three different clusters: "developed rural", "emerging rural" and "underdeveloped rural". The first category includes districts such as Bhatinda and Kangra. The second category includes districts such as Latur and Kamrup, while the last category includes districts such as Kalahandi and Bastar.

The survey shows that the median house price in a metro is Rs15 lakh. It also shows that it is more expensive to purchase a house in a niche city than in a boom town. The median house price in niche cities at Rs10 lakh is higher than that of boom towns at Rs8 lakh. The median house price in an underdeveloped rural area is Rs2 lakh whereas the median house price in a developed rural area is Rs5 lakh.

The survey also shows a big class divide in home ownership. The median price paid by the bottom quintile to buy a house is Rs1 lakh, while the median price paid by the top quintile to buy a house is Rs10 lakh. The median price paid by the richest 1% to buy a house is Rs18 lakh, according to the survey.

The class divide in house prices is not so surprising given the qualitative differences in houses between the income classes. Forty-two per cent of the bottom quintile lives in *kutcha* houses whereas in the top quintile, only 6% households live in *kutcha* houses. Nationally, 20% households stay in *kutcha* houses, 35% in semi-*pucca* ones and 45% stay in *pucca* houses.

In metros, 62% stay in *pucca* houses. Most of the remaining 38% who stay in *kutcha* or semi-*pucca* houses are likely to be slum dwellers who are unable to afford *pucca* houses. The proportion of households living in *kutcha* or semi-*pucca* houses in niche cities at 30% is relatively lower compared to that of metros. In underdeveloped rural areas, 73% households live in *kutcha* or semi-*pucca* houses.

It is because of the preponderance of low-quality and small houses in India that most people in the country find themselves in the ranks of home owners. A study by an independent researcher, Arjun Kumar, published earlier this year in the *Economic and Political Weekly*, and based on data from a previous survey on house conditions conducted by NSSO in 2012 showed that the average area of each dwelling unit (house) was 431 square feet (sq. ft) in rural India and 422 sq. ft in urban India. In terms of per person area, urban areas are slightly better off, with an average of 124 sq. ft per person compared to 107 sq. ft per person for rural areas. To put these numbers in perspective, the median size of a completed single-family house in the US was 2,467 sq. ft, while that of a multifamily unit was 1,057 sq. ft, according to the United States Census Bureau data for 2015.

The ICE 360° survey shows that 97% households in underdeveloped rural areas live in their own homes. In metros, the same proportion is much lower at 67%. Thirty-two per cent of households stay in rented houses in metros. Across urban India, nearly 21% urban households live in rented houses. In rural India, only 3% rent houses. A greater proportion of migrants and a bigger rental market in metros mean that more families live on rent in such cities.

The average monthly rent in urban India is Rs2,659 while the average rent in rural India is Rs2,217, shows the ICE 360° survey. In 2012, the mean monthly rent paid by households living in rented houses was Rs886 and Rs1,919 in rural and urban areas, respectively, according to Kumar's calculations, indicating that the past few years may have witnessed a significant rise in rent across rural and urban India.

Tadit Kundu in Mumbai contributed to this story.

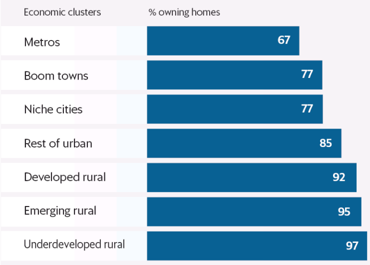
This is the third part of a 16-part data journalism series on how India lives, thinks, earns and spends, based on the latest results from the ICE 360° survey conducted by the People Research on India's Consumer Economy in 2016 (ice360.in).

The next part will look at access to household amenities across India.

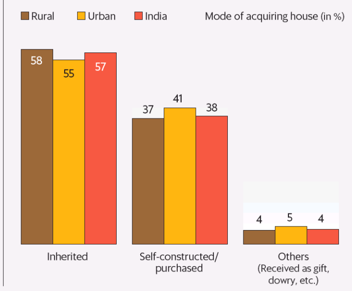
mint ICE 360°
Part 3

Home ownership

Renting is more common in the richer and more developed parts of the country. Nearly everyone lives in their own homes in rural India.

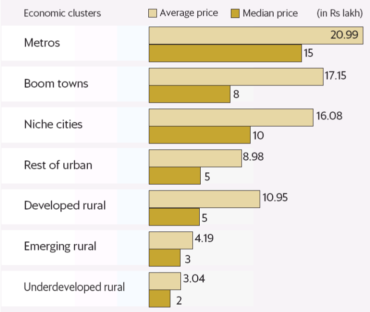


A majority of homes are inherited.

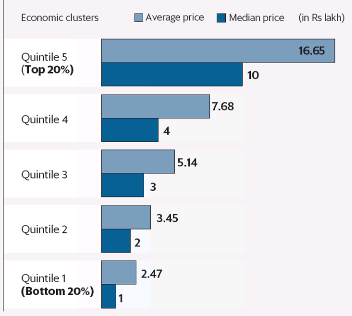


Home prices

The median price of a house in a metro is Rs15 lakh.

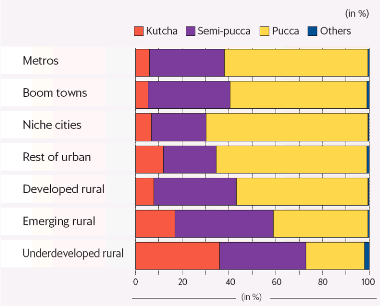


The richest quintile spends far more than even the fourth quintile in home purchases.



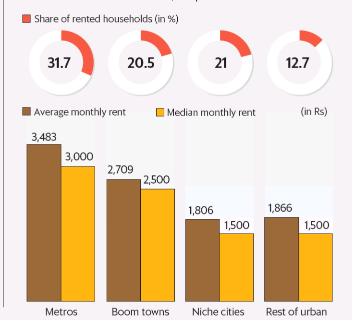
Type of house

More than a third of houses in metros are 'kutcha' or semi-'pucca'.



Rent rates

The median rent in a metro is Rs3,000 per month.



Graphic by Ahmed Raza Khan/Mint

Source: ICE 360° Survey, 2016

Realty bites for NBFCs' biz of loan against property

BY VISHWANATH NAIR
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MUMBAI

Demonetization might further encourage non-banking financial companies (NBFCs) to look away from their loan-against-property portfolios.

The growth rate of the loan-against-property business is likely to shrink to 15-20% this financial year, as compared with 22-24% two years ago, said Krishnan Sitaraman, senior director, financial sector ratings and structured finance ratings, at Crisil Ltd.

Since 2012, the loan-against-property loan book of NBFCs has grown by about 3.5 times, from Rs43,000 crore to Rs1.48 trillion as of 31 March this year. However, over the past year, the business has been going through a rough patch because of the slow growth in property prices and stiff competition from private banks who have access to cheaper funding.

Typically, under the loan-against-property business, lenders follow a 65-70% loan-to-value formula for a residential or commercial property. As the value of the property increases, the borrower is allowed a top-up. People who run micro, small and medium enterprises (MSMEs) are usually the borrowers.

The decision to withdraw Rs500 and Rs1,000 notes has meant that a number of smaller businesses that are heavily dependent on cash have suffered. Add to this the expected impact on property prices due to demonetization removing the cash component in realty deals, and analysts are expecting some part of NBFCs' loan books to get impacted.

According to Sitaraman, while the situation on demonetization is still evolving, the loan-against-property business has begun seeing increased delinquencies—the share of loans that have begun delaying payments.

"Cash flows of MSMEs are the first port of call when it comes to these loans. So, when their business starts suffering, they start displaying delinquencies," he said.

Crisil estimates that 90-day delinquencies are likely to rise to 2.2% by March 2017, compared to 1.9% a year ago.

NBFCs are currently functioning on a 150-day asset recognition cycle, which means that unless payments are pending for over 150 days, the asset will not be classified as non-performing.

In October, India Ratings & Research Pvt. Ltd released a report which said that the loan-against-property segment is likely to see 90-day delinquencies at 5% in about two to four quarters, showing a threefold rise as compared with 2014. India Ratings also noted that competition from banks and other established companies had led to some NBFCs diluting their risk-mitigation practices, leading to higher risk on their books.

In a majority of cases, property valuation had been outsourced to third-party valuers, who do not follow any standardized process, it said.

Non-residential properties, which include industrial, commercial, freehold land and unoccupied residential property, are increasingly being accepted as collateral, it said, adding that these properties could be as high as 30% of the loan book. This had raised the risk factor on the books of some NBFCs.

Crisil's Sitaraman, however, believes that the situation isn't bad enough to warrant concern about lower recoveries that would prompt a sale of assets placed with NBFCs as collateral. As part of its worst-case scenario, Crisil feels that unless there is a 30% fall in property prices, it is unlikely that lenders will fail to recover the amount they have lent.

"The loan-against-property business forms about 70% of the MSME business for NBFCs while the unsecured lending business for this segment forms about 20-25% of the loan book. We should see the ratios shifting in favour of the unsecured lending business going ahead," said Sitaraman.

NBFC stocks are no longer shining stars

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MUMBAI

Shares of non-banking financial companies or NBFCs have lost their sheen, at least temporarily, as demonetization has cast a shadow over their business.

While the structural growth story of the sector is likely to remain intact in the long term, the ones that are overly dependent on cash transactions may find it difficult to transition to a digital or less-cash economy, experts say.

"If demonetization actually encourages digital transactions, banks can improve their underwriting skills with this poorly banked community—this could impair the long-term (economic) moat for some of the NBFCs who have thrived in this cash economy," said Nirav Sheth, head of equities at SBICap Securities Ltd.

Before demonetization, NBFCs had scripted a success story. In an April report, PricewaterhouseCoopers and Assocham said their contribution to the economy has jumped to more than 14% in March 2015 from 8.4% in 2006.

In terms of financial assets, NBFCs have recorded a healthy growth—a compound annual growth rate of 19% over the past few years—comprising 13% of the total credit, the report had said.

The demonetization drive has at least temporarily disrupted the business model of these companies. "For NBFCs, this dislocation can also increase NPLs (non-performing loans) in the near term, though unlikely to be a major stress area. The big question though is how long will it take to come back to pre-monetization growth levels? If you don't have these answers, valuations are pricey," Sheth said.

NBFCs were among the most favoured stocks among investors before the demonetization move. According to data from *Bloomberg*, of the 19 NBFCs in the BSE 200 index, six had registered gains of more than 50% since the start of the year until 8 November. All 19 stocks had posted positive returns from the start of the year until 8 November.

Post-demonetization till date, around seven of the 19 firms have seen more than 15% of their value eroded.

Pre-demonetization, the top-performing NBFCs in the index were Cholamandalam Investment & Finance Co. Ltd, which had gained 73% until 8 November. It has fallen 14.64% since then. Bharat Financial Inclusion Ltd followed next with a 65% rise until 8 November. This stock has fallen 15.34% since 8 November.

"Post-demonetization, those NBFCs which have cash collections and cash disbursals—such as MFIs (microfinance institutions) or rural financiers—have been hit the most, and are the most vulnerable," said Ajay Bodke, chief executive officer and chief portfolio manager (portfolio management services) at Prabhudas Lilladher Pvt. Ltd.