

# DIFFERENT ISSUES FACED BY THE DEVELOPERS OF THE AFFORDABLE HOUSING SCHEME IN AHMEDABAD

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Real estate industry is the second largest industry after an agriculture industry in terms of the direct and indirect employment and the same is expected to grow U.S.\$ 1trillion by the year 2030. Though the industry can be divided into four sub sectors named – housing, commercial, retail and hospitality, the housing sector of the real estate sector is contributing highest share in the total pie of it. The explicit reason behind it is that, it comes into the basic necessity bracket while others are related to trade and business. In fact, the residential sector is contributing almost 11% of the country's GDP.

As far as the residential property market is concern, Begaluru is one of the first choices for the NRI crowd and for the service class people as it is constantly creating the jobs. The second place in this table is occupied by the Ahmedabad city. There are different reasons which have hiked the demand of the residential properties in Ahmedabad. Some of them are as given below:

- a. **Infrastructural development by the Government.** The ongoing Metro work has completed its first phase of 6.5kms in Ahmedabad from apparel park to Vastral Area. Besides this, govt. has approved five new flyovers in the city. In addition, the state govt. has approved seven new town planning scheme and out of which five have been approved in Ahmedabad city. Most of the new T.P. scheme is falling under the affordable zone.

- b. **Urbanization and the growth of the metro towns.** Have attracted the people. Ahmedabad is kind of circular in a shape if not exact then near to. The positive thing in the case of Ahmedabd is that it is having ample land bank suitable or residential, commercial or hospitality.
- c. **The development in the tertiary sector.** For more than a last decade the IT and Telecom industry is growing constantly. Many MNCs have established their offices in the Indian cities like Hyderabad, Begaluru, Pune etc. Gradually these cities got the identity of the Tire I city and the MNC or the Domestic company which cannot afford to have their offices at these Tire I cities have moved toward tire II cities like Ahmedabad. There are so many firms in IT doing the business of job work, consultancy, project management etc. doing their business from the areas like S.G. Highway, Vastrapur, Prahaladnagar etc. situated in the Ahmedabad city.
- d. **The growth of established industries** like
- **Pharmaceutical** – There are some industrial GIDCs like Bavla, Changodar, Bagodara, Vatava with different medium to large scale pharmaceutical companies and agro chemical companies.
  - **Automobile** – Because of the companies like Tata, Piaggio, Honda and Suzuki which have established their production/assembly line in proximity of Ahmedabad city, the job market is having ample job at the different level.
  - **Textile** – Areas like Narol GIDC, Vatva GIDC, Bhadaj GIDC is still having some strong players like Arvind, Ashima, Chirpal and other small players directly or indirectly associated with the textile sector and still the industry is one of the locomotives of the growth of Gujarat State.
  - **Execution of RERA** – RERA has been executed since July; 2017. If we look at the impact of the execution of RERA, launching of the new schemes has been declined by 66% to 4,790 in the year 2017 in compare to the year 2016 14,009. Further, it has declined by 13% to 4,167 in the year 2018 than the previous year. From the other angle, it has helped the real estate developers to clear their unsold inventory during this period. Now many areas of the Ahmedabad like Shela, South Bopal, Ghuma, Bhadaj, Gota, Vastral, Nikol, Narol, Naroda and Vaishnodevi are falling under the affordable zone. Soon after DQ 2017, incline in launching of affordable housing scheme has been observed in above mentioned area with 2BHK less than or equal to 60 sq. meters and 3BHK less than or equal to 80 sq. meters.

To sum up the above discussion, the supportive actions and policies from the State or Central Govt., the development of few established as well as new industries have increased the demand of the affordable housing properties in Ahmedabad. At the end of First Half of 2019, there was 21% increase in the launching or the affordable housing against which there was only 4% rise in the sale at the national level where in which for Ahmedabad city, this was 157% increment of launching of the affordable scheme in comparison to 2% increase in the sales. This imbalance

demand supply ratio has created some challenges for the developer to sale their products. Some of them are as give below:

1. **Soaring land cost and lengthy acquisition process:** - Even though Gujarat is having one of the state of art models and policies of the land acquisition, to acquire the land ready for construction is bit challenging task. Govt. has approved the TP schemes but the developer has to convert the survey number into the final plot. This on paper as well as off paper exercise is time consuming and then there are cumbersome tasks to perform in order to acquire the final plot from the survey number. Few times, the developers are calculating the cost of land on survey number and adding few expenses to turn it into the final plot. As per the stereotype rule, the developer has to leave 40% of the acquired land of the survey number and whatever remains is the final plot. Out of the final plot, they also have to leave the margins and space as per the guide lines defined. This ultimately increases the cost of acquisition. Some indirect expenses like FSI purchase fees or plan pass charges or required approval from the state or central Govt. bodies will add more over head in it.
2. **Unpredictable construction cost:** - Construction cost includes the cost of the material like steel, cement, bricks or blocks, color, wood and wooden material, tiles & sanitary etc. These are direct material cost and few out of it comes into commodity market. The price of few materials keeps changing on daily bases e.g. Cement and Steel. Besides this, such material is having high share as far as the cost is concern in total construction material. On the other hand invisible cost like labor is almost 30% to 40% of the construction material cost. The interesting thing with labor cost here is that it increases twice in a year in the country like India on the occasion of Diwali and on the occasion of Holi. So if the project timing is for 30 months from the inception stage, one has to face five increments in labor cost during the construction time. Yet another invisible but essential cost factors include the professional fees charged by architect, structure engineer, the professional fees of project management consultancy and the fees of the interior and landscape designing. Finally, the indirect costs like sales & marketing, promotional policy, setting up of site office and demolishing it, salary and overhead of the staff, the inventory holding cost (both raw material and final goods where final goods stands for the ready possession unsold flats) and interest on the loan should not be ignored. Out of all these costs, many costs are unpredictable. E.g. while starting of the project if the cost of tiles is INR X. Now because of increase in the fuel price which the tiles manufacturers are using, they are increasing the price of the tiles and it will be INR X+Y. This could be happen with different direct or indirect costs. The real life example is in the year 2017; govt. has imposed the GST @12% which has replaced the service tax of 6%, offered to the customer from the developer. Besides this, there were different slabs of the tax ranging from 5% to 28% for different raw materials used in the construction where in which the developer could not charge more than 12% from the client. In conclusion, gone are the days where in which the developers were predicting the cost

with minimum error and near to perfection. Now a days, one has to keep a sound track record of the various costs and has to update their strategy to offer their final product to their client/s.

3. **Wide selection available to the clients:** - As discussed above, Ahmedabad is near to circular in shape and developing by leaps and bounds. The outskirts of the city has been covered with S.P. Ring road with approx length of 70 kilometers. As the name suggest ring road, this road too is kind of circular in the shape and covering many of the previous mentioned areas. Most of these areas are affordable zone and from the second half of the 2018, many developers have bombarded the affordable market with their newly launched schemes. Because of this, customer is getting perplexed and could not be able to come to the conclusion. An average customer for affordable housing property is looking more than 8 options in order to finalize their choice.
4. **Heterogeneity among the homogeneous segment:** - As far as the price is concern, this affordable housing property costs INR 30 lac to INR 45 lac for 2BHK and INR 50 lac to INR 60 lac for 3BHK. Now this segment by price attract many customers like, working couples, first home seekers, second home seekers; who wants to update their home; i.e. from 1BHK to 2BHK or 2BHK to 3BHK, elementary investors, NRIs etc. every crowd is different from other. Every sub segment has different expectations from their developers. So, it is getting hard for the developer to use particular sales and promotional strategy. E.g. some developers of the east Ahmedabad are offering the consumer durables on the purchase of the flat from them while some developers in western part of the Ahmedabad are not adopting this strategy. In case of luxurious apartment or villa scheme, the target crowd is constant and one can hit the bulls eye easily. Here in the affordable flats, executing different strategies at different time, or different strategies at one time is one of the big issues to deal with.

In conclusion, even though the Govt. is backing the affordable housing projects as a part of their project of Housing for all, imbalanced demand supply ratio, heterogeneous segment, lengthy time in acquisition and approval of the project commencement and alteration in the related law and policy should not be addressed as the teething problem for the affordable housing sector. In Ahmedabad, the circular geographical development, year on year launching of the project from renowned players to the new players are creating the situation more complex for the rest of the developers in the industry.

Literature review (Websites)

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