



Investing in Inclusion: Financial Strategies for Affordable Housing in India

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ABSTRACT

Affordable housing is one amongst many goals on the priority list of larger sections of society today. The urge to own a house is a basic necessity of every individual. Driven by rapid urbanization and population growth, the idea of decent living space at reasonable prices and preferred investment has become most popular at present. Affordable housing financing not only incentivizes the low-income individuals to sustain a roof over their heads but also encourages them to invest in affordable housing segment. Investment in affordable housing brings stability to the finances of individuals. Such a stability reduces the risk associated with volatile markets, making it an attractive investment option for risk-averse individuals. An affordable housing financing and investment has the potential to bring financial stability to millions of lives of low-income earning group of individuals leading to a thriving society. Recognition of desire of affordable housing of individuals by the Indian Government has allowed it to introduce policies and programs like Pradhan Mantri Awas Yojana, Deen Dayal Jan Awas Yojana, etc. Additionally, incentives such as tax benefits, lower interest rates, and subsidies have made it lucrative for real estate developers to construct affordable housing projects as well as the investors to invest in the segment. These initiatives benefit buyers and provide a favourable environment for investors looking to diversify their portfolios. In the given backdrop of the affordable housing, author aims to navigate the structural and functional dynamics in sustaining affordable housing by the economically weaker section of the society to have a holistic understanding of the concept of affordable housing in the 21st century India. The potential of affordable housing

financing and investment in bringing financial stability amongst the low-income earning group of individuals will be highlighted by the authors. The paper will identify the role played by the Government in providing incentives through various programs and policies favorable for the developers and investors in this segment. Additionally, the author in this paper will focus on legal and regulatory challenges in affording houses with limited financial resources. Finally, the author will link the pros and cons of affordable houses with the Nation's growth and economy.

KEY WORDS

Affordable Housing, Affordable Housing Finance, Affordable Housing Investment, Incentives.

INTRODUCTION

The rapid urbanization and population growth that characterize contemporary India present both opportunities and challenges. As India continues its journey toward becoming a global economic powerhouse, urbanization is occurring at an unprecedented rate. Cities are growing not only in size but also in density, with millions of people moving from rural to urban areas in search of better livelihoods and opportunities. However, this growth has also resulted in significant socio-economic disparities, particularly with regard to housing. Affordable housing has emerged as one of the most pressing issues for low-income groups, who struggle to find safe, adequate, and affordable living spaces. The need for affordable housing has thus become critical to India's broader development goals, as it directly impacts social stability, economic inclusion, and overall quality of life.

Affordable housing is widely recognized as a fundamental human right. International frameworks such as the *Universal Declaration of Human Rights (UDHR)* explicitly recognize the right of every individual to an adequate standard of living, including the provision of housing. Article 25 of the UDHR 'affirms that "everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing, and medical care." Similarly, *Sustainable Development Goal (SDG) 11*², set by the United Nations, calls for making cities and human settlements inclusive, safe, resilient, and sustainable. These global commitments serve as a foundation for the Indian context, underscoring the importance of affordable housing as both a human right and a central component of sustainable urbanization.

In India, the growing housing deficit particularly for the economically weaker sections (EWS) and low-income groups (LIG) has placed immense pressure on both policymakers and the private sector. The affordability crisis is compounded by factors such as rising construction costs, scarcity of land, complex regulatory frameworks, and insufficient financing options. These challenges, coupled with the increasing number of people migrating to urban centers, require urgent attention and innovative solutions. In this backdrop, affordable housing financing and investment have gained importance not only as a means to provide shelter but also as a tool to foster economic stability and inclusion.

This paper aims to explore the structural and functional dynamics of affordable housing in 21st-century India, focusing on how housing financing mechanisms can enhance financial stability for low-income groups. It will evaluate the role of Government policies and initiatives such as the *Pradhan Mantri Awas Yojana and Deen Dayal Jan Awas Yojana* in facilitating affordable housing, particularly through incentives for developers and investors. Additionally, the paper will address the legal and regulatory challenges that hinder the accessibility and affordability of housing, examining issues such as land acquisition, zoning laws, and the availability of credit.

Affordable Housing in India: A Contextual Overview

Affordable housing occupies a central position in India's development narrative, reflecting the nation's commitment to addressing socio-economic inequalities and achieving inclusive urbanization. The concept of affordable housing, while seemingly straightforward, is multifaceted and contingent upon the perspectives of

various stakeholders, including Government agencies, financial institutions, and international bodies. These perspectives often converge on the principle of affordability but diverge in their operational definitions, methodologies, and target demographics.

From a Governmental standpoint, affordable housing is intricately tied to income classifications and unit size thresholds. Policy frameworks, such as the *Pradhan Mantri Awas Yojana (PMAY)*, articulate affordable housing as residential units designed to cater to the needs of economically weaker sections (EWS) and low-income groups (LIG). For example, PMAY defines housing for the EWS category as units with a carpet area not exceeding 30 square meters, accessible to households with an annual income of up to ¹ 3,00,000. Similar thresholds exist for LIG and middle-income groups, grounded in the principle that affordability should align with household purchasing power. Financial institutions, by contrast, often define affordability in terms of housing cost-to-income ratios, typically recommending that housing expenditures should not exceed 30–40% of a household's income.³

Internationally, bodies like the United Nations and the World Bank adopt broader definitions of affordable housing, emphasizing the importance of universal access to adequate shelter as a cornerstone of sustainable development. The United Nations, through its Sustainable Development Goal (SDG) 11, envisions affordable housing as a fundamental component of inclusive, safe, and resilient cities. These definitions underscore not only affordability but also adequacy in terms of quality, location, and access to essential services, thereby situating affordable housing within a rights-based framework.

Socio-Economic Drivers of Affordable Housing Demand

The demand for affordable housing in India is primarily shaped by structural socio-economic factors. Chief among these is the phenomenon of rural-to-urban migration. As millions of individuals move to urban centers in search of better livelihoods, cities face an escalating housing deficit, particularly in the low-cost segment. This urban influx exacerbates existing disparities, with economically weaker sections and low-income groups disproportionately affected by high housing costs and inadequate supply.

Income inequality further compounds this crisis. A significant proportion of India's population resides at the lower end of the income spectrum, unable to access formal housing markets. The high cost of land, coupled with rising construction expenses, has made homeownership a distant reality for these groups, relegating many to informal settlements or precarious rental arrangements. The situation is further aggravated by the absence of robust mechanisms for affordable financing, which limits the purchasing capacity of low-income households and constrains demand for formal housing.

Another critical factor is the growing housing deficit. According to the Ministry of Housing and Urban Affairs, India's urban housing shortage stood at 29.2 million units in 2018, compared to 18.78 million units in 2012 with over 95% of this deficit affecting EWS and LIG households.⁴ This shortfall has only intensified in subsequent years, driven by rapid urbanization and inadequate supply-side responses.

Historical Evolution of Affordable Housing Policies in India

Affordable housing has been a focal point of India's development agenda for decades, though its conceptualization and implementation have evolved significantly over time. Early post-independence efforts were characterized by a welfare-oriented approach, with the Government playing a central role in housing provision. The *Indira Awaas Yojana (IAY)*, introduced in 1985, marked a significant milestone in this trajectory. Focused on rural housing, the scheme sought to provide free housing for below-poverty-line families, emphasizing socio-economic upliftment through housing security.

The liberalization era of the 1990s brought a paradigm shift, with greater emphasis on private sector participation and market-driven solutions. Policies during this period increasingly recognized the need for public-private partnerships (PPPs) to address the growing urban housing crisis. The shift culminated in flagship

initiatives like the *Jawaharlal Nehru National Urban Renewal Mission (JNNURM)*, which sought to integrate housing with urban infrastructure development.

In recent years, the *Pradhan Mantri Awas Yojana (PMAY)* has emerged as the cornerstone of affordable housing policy in India.⁵ Launched in 2015, PMAY adopts a comprehensive approach by addressing both demand- and supply-side challenges. The scheme's Credit-Linked Subsidy Scheme (CLSS) has facilitated access to housing finance, while its emphasis on public-private partnerships has incentivized the construction of affordable housing units. Other programs, such as the *Deen Dayal Jan Awas Yojana* and state-specific initiatives, have complemented these efforts, contributing to the diversification of affordable housing models across the country.

Critical Analysis of Affordable Housing in India's Development Narrative

Affordable housing in India transcends the narrow objective of providing shelter; it is an instrument of socio-economic transformation. By addressing the housing needs of economically weaker sections and low-income groups, affordable housing policies contribute to broader objectives of poverty alleviation, social inclusion, and sustainable urbanization. Furthermore, the sector holds immense potential for economic growth, stimulating employment in the construction industry and fostering ancillary sectors such as cement, steel, and financial services.

However, the positioning of affordable housing within India's development narrative is fraught with challenges. While the Government's focus on affordability is commendable, it often overlooks critical aspects of adequacy and inclusivity. Housing units under schemes like PMAY, though affordable, are frequently located on urban peripheries, far from employment hubs and essential services. This spatial mismatch undermines the socio-economic benefits of affordable housing and reinforces patterns of exclusion.

Additionally, the implementation of affordable housing policies suffers from systemic inefficiencies, including delays in land acquisition, lack of coordination among stakeholders, and insufficient monitoring mechanisms. The reliance on private developers, while necessary, raises concerns about profit-driven approaches that may compromise quality and accessibility.

Despite these challenges, the integration of affordable housing into India's urban policy framework represents a significant step toward realizing the vision of inclusive growth. By addressing the socio-economic drivers of housing demand and refining existing policies, India can pave the way for a more equitable and sustainable future.

The Role of Affordable Housing Financing

Affordable housing financing serves as the linchpin in enabling access to adequate housing for low-income groups and economically weaker sections. In the Indian context, where affordability remains a persistent challenge, financing mechanisms bridge the gap between aspiration and accessibility⁶. This chapter explores the various tools and programs that facilitate housing finance for vulnerable populations and analyzes their broader socio-economic impact.

Financing mechanisms for affordable housing are diverse, reflecting the varying needs and capabilities of beneficiaries. Home loans, often extended through public and private sector banks, remain the primary instrument for middle-income and low-income groups. Government-backed schemes such as the Credit-Linked Subsidy Scheme (CLSS) under the *Pradhan Mantri Awas Yojana* have been instrumental in reducing interest burdens and enabling first-time homeownership. Microfinance institutions play a crucial role for those ineligible for traditional loans, offering small-scale credit tailored to informal sector workers. Additionally, subsidies provided by both central and state Governments help to lower upfront costs, making housing financially viable.

Affordable housing financing not only fulfills the immediate objective of homeownership but also contributes to long-term financial stability for beneficiaries. Housing, as a tangible asset, provides low-income families with a safeguard against market volatility and economic shocks. The stability derived from homeownership encourages savings, reduces expenditure on temporary shelter, and enables intergenerational wealth creation. Moreover, financing affordable housing contributes to economic growth by fostering demand in the real estate and allied sectors.

Globally, models such as inclusionary housing policies in the United States and interest-free loans under Islamic banking offer valuable insights. Inclusionary zoning, for instance, mandates that a percentage of new developments be allocated to affordable housing, ensuring integration and financial sustainability. Similarly, Islamic banking's principle of interest-free loans, structured as profit-sharing agreements, reduces the burden of debt while maintaining affordability. India can adapt such models to its socio-economic context, blending global best practices with localized needs.

Despite these advantages, significant barriers hinder access to affordable housing financing. High interest rates, bureaucratic complexities, and a lack of financial literacy often exclude the very groups these programs are designed to assist. Moreover, the informal nature of income for many low-income households complicates loan eligibility assessments. To overcome these challenges, policy interventions must prioritize financial inclusivity. Simplified loan processes, targeted subsidies, and the integration of informal income verification systems can enhance accessibility.

Government Initiatives and Incentives

Government initiatives have played a transformative role in promoting affordable housing, demonstrating a commitment to bridging India's housing deficit. The *Pradhan Mantri Awas Yojana (PMAY)* serves as the flagship program, aiming to achieve "Housing for All" by 2022 through a multi-pronged approach.⁷ It includes components such as in-situ redevelopment, affordable housing partnerships, and the Credit-Linked Subsidy Scheme. The *Deen Dayal Jan Awas Yojana* complements these efforts by focusing on small-town housing development, thereby addressing urban sprawl and peri-urban housing needs.

These initiatives are underpinned by incentives for developers and investors. Tax benefits, such as exemptions under Section 80-IBA of the Income Tax Act⁸, encourage private sector participation. Reduced GST rates and land subsidies further lower the cost of affordable housing projects, making them financially attractive to developers. For investors, affordable housing offers a low-risk, high-demand segment supported by robust Government backing.

However, the implementation of these initiatives is fraught with challenges. Bureaucratic inefficiencies, such as delays in approvals and land acquisition, hamper timely project completion. Additionally, the misalignment of policies with ground realities often results in suboptimal outcomes. For example, housing units constructed under PMAY are sometimes located on urban peripheries, disconnected from employment hubs and essential services, reducing their utility for beneficiaries.

Case studies reveal both successes and shortcomings. The Gujarat Government's integrated housing projects showcase effective collaboration between public and private stakeholders, leading to timely delivery of quality housing. Conversely, delays in states like Maharashtra highlight the pitfalls of over-reliance on bureaucratic processes. Addressing these challenges requires a shift toward streamlined approvals, enhanced coordination among agencies, and greater emphasis on beneficiary feedback.

Market Dynamics and Investment Opportunities

The affordable housing sector has emerged as a key driver of real estate growth in India, offering significant opportunities for both developers and investors. The assured demand for affordable housing, bolstered by Government incentives and the unmet needs of a growing population, makes this segment highly attractive⁹.

Developers benefit from reduced GST rates, tax exemptions, and simplified regulatory frameworks, while investors are drawn to the sector's low-risk profile and steady returns.

Public-Private Partnerships (PPPs) have been instrumental in bridging the demand-supply gap. Through PPP models, private developers leverage public resources, such as land or financing, to deliver affordable housing units. These partnerships enable faster project execution and better alignment with market needs while maintaining affordability.

Despite its promise, the sector faces risks that warrant careful management. Over-reliance on Government subsidies can create financial vulnerabilities if policy priorities shift. Regulatory uncertainties, such as changes in zoning laws or tax incentives, further exacerbate risks for developers and investors. Mitigating these challenges requires diversification of funding sources, enhanced stakeholder collaboration, and adaptive regulatory frameworks.

Data on recent trends underscores the sector's potential. The emergence of affordable housing-focused Real Estate Investment Trusts (REITs) has unlocked new avenues for institutional investment. Similarly, foreign direct investment (FDI) in affordable housing has grown steadily, driven by India's liberalized investment policies and the sector's resilience during economic downturns. These developments highlight the sector's capacity to attract both domestic and international capital, further underscoring its importance to India's economic trajectory.

CONCLUSION

This paper has examined the multifaceted dynamics of affordable housing in India, emphasizing its role in fostering financial stability and promoting inclusive growth. From financing mechanisms and Government initiatives to market-driven investment opportunities, the analysis reveals the critical interplay between policy, economics, and social welfare.

The challenges identified ranging from financing barriers to implementation inefficiencies—underscore the urgency of adopting a holistic and inclusive approach. Addressing these issues requires concerted efforts by policymakers, legal experts, and industry stakeholders to streamline processes, enhance accessibility, and align housing initiatives with ground realities.¹⁰

Affordable housing is more than a policy imperative; it is a moral and legal obligation, central to the realization of human dignity and sustainable urbanization. By prioritizing affordable housing within its urban development agenda, India can set a global example of equitable growth, ensuring that every individual has a place to call home. This vision calls for immediate action and long-term commitment, underscoring the transformative potential of affordable housing for India's future.

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