# The Housing Crisis in India: A Critical Assessment of Finance Sector Dynamics and Shortage Estimation

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**Abstract**
**Housing stands as one of humanity's three fundamental needs - along with food and clothing - serving as a cornerstone of human dignity and social development. Adequate shelter provides essential security, privacy, and the freedom necessary for personal growth, while simultaneously fostering self-esteem, social standing, and cultural identity. India's enormous housing challenge has become increasingly urgent, as evidenced by the 2011 census which identified the nation as the world's second most populous country after China, with projections indicating growth to 1.4 billion people in upcoming census data. This unprecedented population expansion creates extraordinary demand for housing stock, presenting urban planners, civil engineers, and policymakers with the complex challenge of not only meeting current shortages but also anticipating future needs. This paper examines critical issues within India's housing finance sector, analyzing both present deficits and projected requirements to assess how the nation might achieve its goal of "affordable housing for all" amidst these demographic pressures..**

**Keywords: Housing Finance, Housing Shortage, Challenges in Housing Finance Sectors**

## 1. Introduction

The concept of housing extends far beyond mere physical structures - true adequate shelter must foster holistic community living while meeting fundamental human needs. Psychologist Abraham Maslow's hierarchy of needs framework establishes that basic physiological and safety requirements must first be satisfied before higher-order needs can develop, positioning housing as the foundational platform for human development. A proper dwelling integrates essential services including reliable water supply, sanitation systems, electricity, and waste management - the basic infrastructure enabling healthy living.

Modern housing paradigms emphasize the critical importance of neighborhood ecosystems that harmoniously integrate four key elements: residents, community activities, physical spaces, and environmental quality. Effective urban design must create environments that naturally facilitate daily activities like walking, recreation, shopping, and education while encouraging organic social interaction. When neighborhoods successfully combine accessibility, affordability, and individual expression with these community-oriented features, they become desirable living spaces that attract sustained settlement and organic growth. This comprehensive approach transforms housing from simple shelter into vibrant communities that nurture both individual well-being and collective social development.

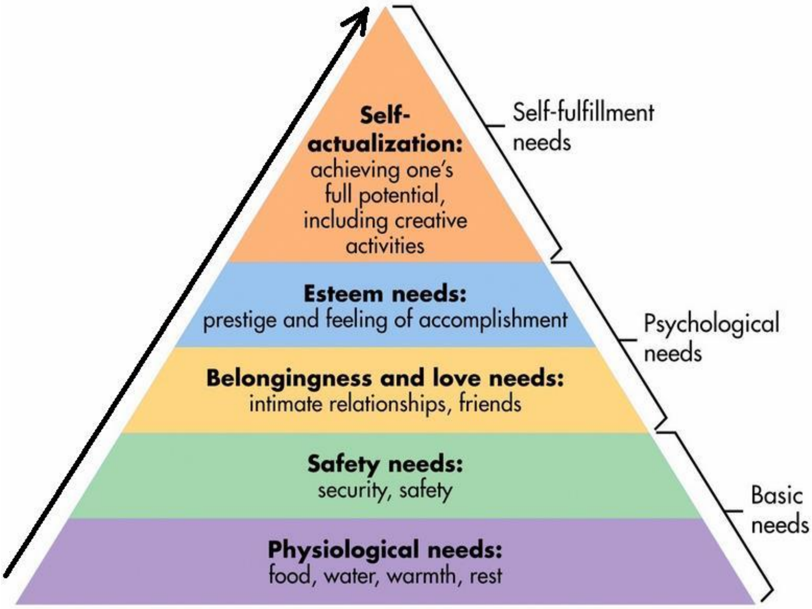


**Fig. 1: Abraham Maslow's Human Need Pyramid**

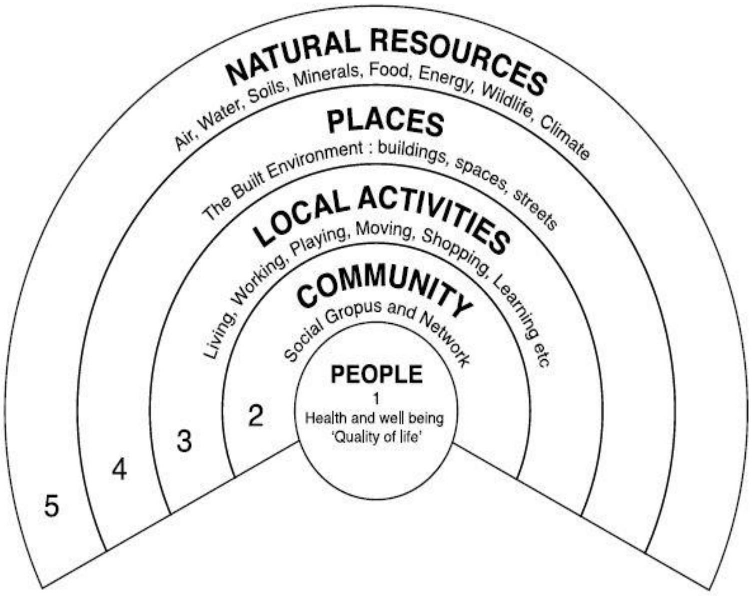


**Fig. 2: Ecosystem Model of Neighbourhood**

The role of a planner or a policy maker is to control this growth of settlement in such a way that it can accelerate the pace of overall development of the region.

## 2. Objectives

The objectives of this research paper are

1. To examine the magnitude and characteristics of housing shortage in India through quantitative and qualitative analysis.
2. To evaluate the economic contribution of the housing sector to India's GDP, employment generation, and overall economic development.

3. To assess the evolution of India's Housing Finance sector and identify key operational challenges and systemic constraints affecting its performance.
4. To propose policy recommendations and strategic interventions for strengthening housing finance mechanisms and addressing India's housing deficit.

## 3. Methodology

The paper is entirely based on secondary source information and information from the Government of India and United Nations report.

## 4. Housing Scenario in India

The global shift toward urbanization has emerged as one of the most transformative trends of the 21st century. Following the Second World War and subsequent decolonization movements, newly independent nations like India prioritized rapid industrialization and agricultural development as pathways to economic growth. While industrialization promised substantial revenue generation and foreign exchange earnings, its labor demands far exceeded the capacity of urban populations, triggering large-scale rural-to-urban migration. This migrant workforce, typically lacking formal education and specialized skills, became confined to low-wage employment that scarcely covered basic sustenance needs, let alone adequate housing. The resulting inability to afford proper shelter led to the proliferation of informal settlements, slums, and squatter colonies across urban landscapes.

Housing shortage, measured as the disparity between a nation's population and its available housing stock, reveals the severity of India's urban crisis. Historical analysis of housing deficits across different periods demonstrates how this gap has evolved into one of India's most pressing developmental challenges. The convergence of rapid urbanization, industrial labor demands, and rural migration patterns has created a perfect storm of housing inadequacy that continues to shape India's urban fabric today.

| **Year** | **Housing Shortage or Surplus (Million)** |
|---|---|
| 1901 | +1.8 |
| 1941 | -1.7 |
| 1971 | -14.6 |
| 1981 | -23.3 |
| 1991 | -22.9 |
| 1996 | -13.66 |
| 2001 | -19.4 |
| 2007 | -24.71 |
| 2012 | -18.78 |

**Table 1. Housing Shortage in India**

India's post-independence housing shortage has progressively intensified with population growth, reaching critical levels in recent decades. The 12th Five Year Plan Report quantifies this deficit through three key parameters:

1. **Homelessness**: 1.06 million houseless individuals
2. **Obsolescence**: 2.29 million households inhabiting unserviceable structures
3. **Congestion**: Over 6 million families living in severely cramped conditions (<300 sq.ft), often with multiple adults sharing single rooms

State-wise analysis reveals Uttar Pradesh faces the most acute shortage (3.07 million households), followed by Maharashtra (1.94 million), West Bengal (1.33 million), and Andhra Pradesh (1.27 million). Urban areas demonstrate greater vulnerability, with 1 in 6 residents lacking adequate housing compared to 1 in 10 rural dwellers - a disparity stemming from urban migration patterns and tenure insecurity.

The crisis exhibits stark socioeconomic dimensions:

- **Demand Concentration**: 96% of shortages affect Economically Weaker Sections (EWS) and Lower Income Groups (LIG)
- **Supply Imbalance**: 85% of new housing targets Higher/Middle Income Groups (HIG/MIG), leaving only 15% for EWS/LIG populations

Systemic challenges exacerbate the problem:

1. **Construction Inefficiencies**: Labor-intensive traditional methods prolong project timelines (3-5 years completion)
2. **Cost Escalation**: Protracted construction periods and rising land values inflate unit costs beyond EWS/LIG affordability
3. **Market Disconnect**: Supply-demand mismatch perpetuates housing inequality

## 5. Contribution of Housing Sector in Indian Economy

India's economic landscape reveals significant sectoral disparities, with the service sector contributing 54.15% to GDP in FY 2013-14. This concentration creates an employment paradox - while generating substantial economic output, it primarily benefits a skilled, affluent segment of the population, failing to address broader unemployment challenges. Recognizing this imbalance, the Government of India has initiated strategic efforts to rebalance economic composition by strengthening the industrial sector's contribution.

The housing sector emerges as a particularly promising avenue for this rebalancing. Demonstrating robust growth, its GDP contribution increased from 6.2% in FY 2017-18 to 7.4% in FY 2018-19 - a notable 20% expansion. This sector holds unique potential due to its strong multiplier effect: every rupee invested generates disproportionate gains in both income generation and employment creation across construction, manufacturing, and related industries.

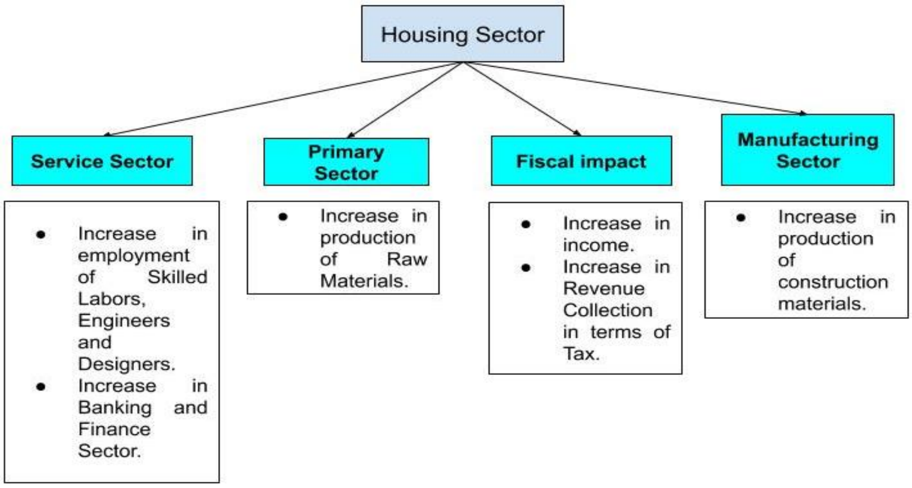


**Fig. 3. Multiplier Effect of Housing Sector**

## 6. Housing Affordability and Housing Finance

The concept of housing affordability serves as a critical precursor to any meaningful discussion of housing finance. Affordability represents a dynamic, income-dependent measure of an individual's capacity to secure adequate housing within their financial means. This relative metric acknowledges that current inability to purchase housing - typically due to income constraints - does not necessarily indicate permanent exclusion from the housing market. Rather, affordability fluctuates with changes in income levels, housing prices, and financing options, creating potential pathways to homeownership over time. The transitional nature of affordability underscores why housing finance systems must accommodate both present circumstances and future economic mobility when designing solutions for diverse income groups.

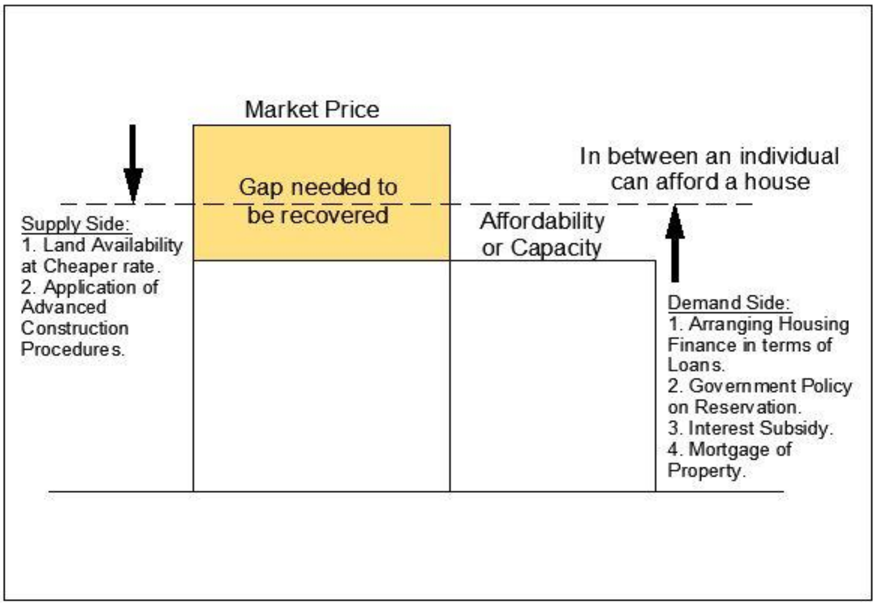


**Fig. 4. Supply and Demand Side of the Production in Housing Stock**

The disparity between housing market prices and individual affordability can be addressed through two primary approaches:

1. Reducing the market price of housing units
2. Enhancing the purchasing capacity of individuals

This study focuses on the second approach, particularly examining how housing finance mechanisms can expand homebuyers' economic capacity. Housing finance serves the fundamental purpose of enabling access to capital for both home purchases and housing development.

India's institutional framework for housing finance has evolved through key milestones:

- **1970**: Establishment of HUDCO to facilitate technological innovation, knowledge sharing, and capacity building in housing development
- **1977**: Creation of HDFC as a specialized housing finance institution providing loans to both individuals and developers
- **1987**: Formation of NHB marked a turning point, catalyzing growth in housing finance institutions (HFIs)

The sector has demonstrated significant growth:

• Current institutional landscape: 97 active HFIs
• Mortgage market size: ₹19.1 lakh crore (as of March 2018)
• HFI market share: 36% of total mortgage market
• NHB refinancing support: ₹13,283 crore disbursed in FY 2017-18

This institutional ecosystem continues to play a vital role in addressing India's housing affordability challenges through financial inclusion and market development.

**Structural Improvements:**

1. Clear categorization of affordability solutions
2. Chronological presentation of institutional development
3. Precise quantification of market parameters
4. Better flow between conceptual and empirical content
5. Consistent formatting of financial figures
6. Removal of redundant transitional phrases
7. Enhanced readability through bullet-point presentation of statistics

| Year | H.F.Cs (in Crore) | S.C.Bs (in Crore) | C.Ss (in Crore) | Total (in Crore) |
|---|---|---|---|---|
| 2011-12 | 5302.1 | 8851.4 | 236.3 | 14389.9 |
| 2012-13 | 7694 | 9848 | | 17542 |
| 2013-14 | 9633 | 8223 | | 17856 |
| 2014-15 | 7390 | 14367 | 90 | 21847 |
| 2015-16 | 10852 | 10275 | 463 | 21590 |
| 2016-17 | 16779 | 5696 | 209 | 22684 |
| 2017-18 | 13283 | 11508 | 130 | 24921 |

**Table 2. Refinance Disbursements by NHB**

The longitudinal data reveals a significant transformation in NHB's refinancing patterns, with Housing Finance Companies (HFCs) increasing their share from 36.85% to 86.33% of total refinancing, while Scheduled Commercial Banks' (SCBs) participation declined sharply from 61.51% to 13.11% during the same period. This paradigm shift stems from two concurrent policy developments:

1. **Infrastructure Focus**: The Eleventh Five Year Plan's emphasis on nationwide infrastructure development redirected SCBs' lending portfolios toward large-scale infrastructure projects.
2. **Housing Mission**: The "Housing for All by 2022" initiative amplified HFCs' strategic importance in housing finance delivery.

Structural challenges in India's project execution ecosystem have further reinforced this trend. Chronic delays in infrastructure projects have led to:

- Extended loan repayment cycles
- Mounting non-performing assets (NPAs) in bank portfolios
- Consequently, reduced bank appetite for long-term housing exposure

In response, NHB strategically reallocated its refinancing focus toward HFCs post-2011-12 to:

- Maintain liquidity in housing markets
- Compensate for reduced bank participation
- Support policy goals for affordable housing delivery

## 7. Types of Home Loans Provided

The housing finance market primarily offers two interest rate structures:

1. **Fixed-Rate Loans**: Maintain constant interest rates throughout the loan tenure, ensuring stable monthly payments
2. **Adjustable-Rate Mortgages (ARMs)**: Feature introductory lower rates for initial years (typically 3-5 years) before periodic adjustments to market rates

**Specialized Housing Loan Products**:

(i) **Home Purchase Loan**: Financing for acquiring residential property
(ii) **Home Construction Loan**: Capital for new house construction
(iii) **Home Improvement Loan**: Funds for property renovations/repairs
(iv) **Home Extension Loan**: Financing for expanding existing structures
(v) **Home Conversion Loan**: Capital for modifying property usage
(vi) **Land Purchase Loan**: Financing for residential plot acquisition
(vii) **Bridge Loans**: Interim financing for transitional home purchases
(viii) **Refinance Loans**: Debt restructuring for existing mortgages

**Eligibility and Terms (2018 Benchmark)**:

- **Approval Criteria**: Subject to Housing Finance Institutions' (HFIs) policies, often requiring collateral
- **Interest Rates**: Average 9.5% per annum
- **Maximum Tenure**: Up to 30 years repayment period

## 8. Changes of Government Policies towards Housing Sector

India's housing policy has undergone three distinct evolutionary phases, reflecting changing governmental roles and priorities:

**First Phase (1950-1990): Provider Model**

The post-independence era saw direct government intervention in housing provision, focusing on relocating urban populations to peripheral areas with basic infrastructure support. This period witnessed the establishment of key institutions - HUDCO (1970), HDFC (1977), and NHB (1987) - while confronting systemic challenges including housing affordability constraints, technological limitations, land allocation issues, inadequate policy frameworks, material shortages, and skilled labor deficits. These operational hurdles prompted policy reevaluation, leading to more integrated approaches that preserved existing settlements while improving services and income opportunities.

**Transition Phase (1990-2010): Enabler Approach**

The 1988 National Housing Policy marked a paradigm shift from direct provision to enabling private participation. The JNNURM (2005) introduced comprehensive urban planning mandates, requiring state governments to develop City Development Plans integrating housing with infrastructure. The subsequent Rajiv Awas Yojana (2009) pioneered slum prevention strategies through Slum-Free City Plans, introducing innovative solutions like rental housing and addressing non-titleholder populations - a key distinction from JNNURM's landowner-focused approach.

**Current Phase (2010-Present): Facilitator Role**

Contemporary policy emphasizes market facilitation through financial instruments (interest subsidies, mortgage guarantees) and technological interventions to accelerate construction timelines. The flagship Pradhan Mantri Awas Yojana (2014) consolidates previous initiatives while prioritizing rental housing solutions through the Draft Rental Housing Policy, specifically addressing migratory populations' transitional needs. This phase represents a mature policy ecosystem balancing market mechanisms with targeted welfare interventions to achieve "Housing for All by 2022."

**9. Problems Emerging in Housing Finance Sector**

The recent higher economic growth and rapid urbanization coupled with the government's enabling policy initiatives have also led to the emergence of a booming housing market in India. Since housing is capital intensive construction activity, it requires huge investment. Along with the fast growth of the housing finance sector there are some problems which are emerging out, require immediate solutions otherwise these will create a major threat to this sector in the future.

(a) **Lack Accessibility for the LIG and EWS people:** As it is discussed earlier that the supply of housing is majorly concentrated to MIG and HIG people who have an authentic record of income. But for the LIG and EWS people banks are not that much liberal in providing loans.

(b) **More Dependency towards Collateral Security:** To avoid bad loans the banks are getting more and more dependent on collateral security in terms of mortgage of property. But poor people of urban areas who do not have their own property to provide as a mortgage are the worst sufferers.

(c) **Lack of Transparency and Accessibility in Loans from Informal Sectors:** Due to the previous reasons the poor people of slums in urban areas and in villages as well are forced to take help from the local money lenders who provide them loans with a very high rate of interest. In the post-independence period this has become a grave issue which is raising the problem of debt trap.

(d) **Non Repayment of Loans:** Recently in the year 2018 two well-known HFCs named as DHFL and India Bulls Housing Finance Limited have faced a huge loss which forced them to sell a large amount of their market share. The problem arises because these companies are giving long term loans and raising money through short term gains. When loans are provided for long term the chances of generation of Non-Performing Assets also become high. Non-Performing Assets (NPA) are those bad loans in which repayment has not been done in a continuous manner. If a loan has not received repayment for a time being then after a certain period of time it will convert into NPA and the HFCs are given the authority by the Government to acquire the properties of the borrower and sell them to satisfy the loss, under the provision of SARFAESI Act. But submission of fake title deeds and fake salary certificates make this problem so much aggravated. According to one of the studies conducted by CRISIL, explored that out of the 22 HFCs 9 had bad loans of over 4%. As per the Financial Stability Report of 2019 the Gross NPA of our country is 9.1% of total loans provided and HFCs have 1.8% of GNPA. This figure has increased from 1.6% in FY2018 and if it continues to grow in this trend then it will reach around 3% which will not at all desirable for the growth of the housing finance sector.

**(e) Lack of Flexibility in Repayment Process:** As we stated it before, that LIG and EWS people of urban as well as of rural areas have not benefited desirably through the housing loans because their income is not fixed; in some months they earn sufficient amounts and in other months they may not. So, repaying a fixed amount in each month for the loan is not possible for them, if this process bears the characteristic of Flexibility then these people will be benefited.

## 10. Solutions Regarding These Problems in Housing Finance Sector

If we focus on the solutions related to the Housing Finance Sector only, then our scope of analysis will become limited but if we enlarge our scope and consider the overall housing sector then we can better anticipate these problems.

(i) The housing finance sector serves the critical function of enabling home ownership by providing capital for property acquisition and construction. However, its effectiveness is fundamentally constrained by borrowers' income levels. When households struggle to meet basic subsistence needs like food and clothing, home ownership becomes an unattainable aspiration rather than a viable financial commitment. Extending housing credit to such economically vulnerable groups creates a paradoxical situation - while intending to solve housing needs, it potentially exacerbates financial distress for both borrowers and Housing Finance Companies (HFCs). The inevitable consequence is loan defaults, undermining the financial viability of lending institutions.

(ii) A well-structured population control policy is essential to ensure predictable housing demand and efficient resource allocation. By stabilizing population growth rates, urban planners and policymakers can more accurately forecast housing needs, enabling systematic development of housing stock and sustainable utilization of land and infrastructure. This proactive approach would facilitate long-term planning, preventing urban sprawl and optimizing the delivery of affordable housing solutions.

(iii) Simultaneously, financial inclusion must be prioritized to make housing loans accessible to all socioeconomic groups, including illiterate and semi-literate populations. Simplifying loan application procedures—through vernacular documentation, assisted application processes, and digital literacy programs—can significantly enhance accessibility. Additionally, offering diverse loan products with flexible repayment terms tailored to borrowers' income cycles would encourage wider participation. By combining these measures—such as step-up repayment plans, grace periods, and variable installment options—lenders can empower low-income borrowers while mitigating default risks. A user-centric approach to housing finance is crucial to bridging the affordability gap and ensuring equitable access to homeownership.

(iv) Imposition of Strict verification rules for checking the credentials of borrowers, who take a large amount of loan, to avoid the cases of frauds, and make the collateral security mandatory for them.

(v) To mitigate asset-liability mismatches in the housing finance sector, a balanced approach combining securitization and savings mobilization is essential. While increasing savings deposits offers temporary relief, securitization provides a more sustainable, long-term solution by enhancing liquidity in the financial system. However, these measures must be carefully calibrated to avoid excluding low-income borrowers; a hybrid model incorporating targeted lending programs for economically weaker sections can maintain financial inclusion while ensuring sector stability.

(vi) Concurrently, structural reforms in property transactions are critical. Standardizing stamp duties across states and streamlining land acquisition processes would significantly reduce housing costs—currently inflated by 30-45% due to bureaucratic delays and variable charges. Such administrative efficiencies would directly improve affordability without compromising regulatory oversight.

(vii) A paradigm shift in credit allocation is equally vital. Housing finance institutions must reorient their portfolios to prioritize rural housing and urban slum rehabilitation, moving beyond the current emphasis on higher-income groups. This rebalancing would align with national housing-for-all objectives while addressing acute shortages in underserved markets.

(viii) Technological transformation of construction practices presents another key opportunity. The Building Material and Technology Promotion Council's (BMTPC) identification of 16 time-saving technologies—currently in trial phases—could revolutionize housing delivery timelines. Accelerating their commercialization and adoption would shift the sector from labor-intensive methods to efficient, scalable solutions, potentially cutting project durations by half while improving quality standards. Strategic public-private partnerships could fast-track implementation, making these innovations accessible to developers across price segments.

(ix) Together, these measures—financial restructuring, regulatory simplification, inclusive lending, and technological upgradation—form an integrated framework for sustainable housing sector growth. Their coordinated implementation would simultaneously address supply-side constraints, demand-side affordability, and systemic inefficiencies that currently hinder India's housing market potential.

## 11. Conclusion

The Indian housing finance sector has faced significant challenges in recent years, with growth rates halving during FY 2018-2019. However, emerging indicators suggest a gradual recovery, driven by concerted efforts from both government and regulatory bodies. Industry leaders at the India Mortgage Leadership Conclave (IMLC) in Mumbai highlighted several positive developments, including the regulatory convergence between housing finance companies and the Reserve Bank of India (RBI). Mahesh Misra, CEO of India Mortgage Guarantee Corporation (IMGC), emphasized the dual benefits of this alignment: establishing uniform regulations across all mortgage providers (with banks accounting for 58% of originations) while enabling the National Housing Bank (NHB) to focus on its developmental role as sector sponsor.

The government has further stimulated recovery through a ₹25,000 crore stress fund to complete stalled affordable and middle-income housing projects not yet classified as NPAs. SBI Chairman Rajnish Kumar identified land costs and associated duties as critical affordability barriers, advocating for fiscal measures to reduce these burdens. Despite current challenges, the sector demonstrates promising potential, with growing demand across both commercial and residential segments. Industry consensus emphasizes the need to develop specialized housing solutions, particularly rental housing models and senior citizen housing schemes, to address diverse demographic needs. These initiatives, combined with regulatory reforms and government support, are expected to restore growth momentum while improving housing accessibility across income segments. The convergence of policy interventions, market corrections, and innovative financing models positions the sector for sustainable expansion in the coming years.

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