

Semi-urban/rural Affordable Housing Outpacing Urban Demand

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After three consecutive quarters of a slowdown due to the COVID-19 pandemic, steep inflation and declining wages, the rural economy is now showing signs of recovery. Pent-up demand from the COVID-19 pandemic, a strong monsoon and a reduction in some commodity prices such as edible oil have led to a faster recovery in the rural and semi-urban geographies as compared with the urban economy.

Despite a slow start to the monsoon, rainfall has picked up in most parts of the country. The southwest monsoon accounts for nearly 70% of India's annual rainfall and is the backbone of the country's \$2.7 trillion agriculture-dependent economy. Strong monsoons go a long way in improving income levels in the hinterland and driving up consumer sentiments.

Expectations of a good harvest and increased disposable income have reduced the risk aversion that had crept into the rural economy during the pandemic, instead fuelling the appetite for big-ticket purchases or investments, including home buying. Increased disposable income in the hands of rural customers has also aided the demand for affordable housing.

India currently faces an affordable housing shortage. To address this, the government launched the Pradhan Mantri Awas Yojana in 2015, and later the Credit-Linked Subsidy Scheme in 2017. This has given rise to several affordable housing projects in semi-urban and rural areas, as more and more developers are encouraged to venture away from the major cities to address the increased demand. Lending to the affordable housing segment which historically relied on unorganised lenders/money lenders has also become lucrative. The informal lending market stands at 95% in rural & semi-urban markets, providing a large opportunity for affordable housing financiers.

The massive reverse migration following the COVID-19-led lockdowns also led to a lot of people leaving cities and returning to their hometowns. This, combined with the rising popularity of remote or hybrid jobs has added to the demand for quality housing in smaller towns and cities. Demand for semi-urban housing loans has been higher than witnessed before, with hybrid working leading to consumers looking for better homes in the outskirts of the city.

Noting the need for more affordable housing facilities, the Reserve Bank of India recently raised the limits on individual housing loans by co-operative banks citing the rise in housing prices over the last few years. This will also enable increased access to finance for customers in rural and semi-urban geographies. RBI also allowed rural co-operative banks to extend finance to commercial residential housing projects, taking into view the growing need for affordable housing projects and their access to local credit facilities.

The changing needs of consumers in the post-pandemic era have led to increased demand for affordable housing loans in the INR 10-20 lakh ticket size, from the age group of 27-40 and from people at the bottom of the pyramid and in the low-income segments in non-metro locations. Affordable housing finance customers are less sensitive to interest rates, thus the rising interest rates have a limited impact on them. The properties are largely (90-100%) self-occupied and unlike in the urban market, the demand isn't investment-driven.



Specialised affordable housing finance companies have capitalised on the growing demand from the segment and have grown between 20-30% in FY22 and are likely to maintain that pace of growth in FY23 as well. At Shriram Housing Finance, we are a focused affordable housing financier with our assets under management growing by 36% in FY22 and 43% CAGR in the last 3 years, and we expect this pace of growth to continue in FY23. Credit costs have held better for housing vs other segments through covid too. Overall asset quality outcomes were also superior across the housing finance spectrum. In fact, at Shriram Housing Finance our bad loans fell to under 1% of the book, the lowest since its inception.

Growing urbanisation, nuclearization, increasing working population, rising per capita income, better access to formal credit and improved affordability are all aiding a healthy demand for affordable housing, in particular from tier-III and tier-IV towns and cities. As the economy recovers and inflation abates, this demand is only expected to get stronger, making the outlook for the sector look very bright as the government pushes on to fulfill its mission of 'Housing for All' by 2024. The immense latent potential of the market and housing shortage alludes to strong demand for small ticket loans.

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