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Will increase in carpet area of houses under PMAY-U lead to substantial increase in demand?

The enhanced size structure may offer a wider choice to aspirational buyers waiting on the sidelines

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The increase in the carpet area of residential units that would now be eligible for interest subsidy under the government's Credit Linked Subsidy Scheme (CLSS) for the middle-income group (MIG) will cover almost 90 percent of housing projects across the country but the impact, say real estate experts, may not be substantial as those earning between Rs 12 lakh to Rs 18 lakh may already own a house.

The Pradhan Mantri Awas Yojana is for first-time homebuyers.

However, what it may do is to offer a wider choice to aspirational buyers waiting on the sidelines who had decided against purchasing a house due to limitation in sizes.

The prescribed carpet area limits for availing interest subsidy under the Pradhan Mantri Awas Yojana (Urban) have now been revised to 160 sq m (around 1700 sq ft) from 120 sq (around 1200 sq ft) m for MIG I, and to 200 sq m (around 2100 sq ft) from 150 sq m (1600 sq ft) for MIG II.

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For the MIG I category, which consists of individuals with an annual income of Rs 6-12 lakh, an interest subsidy of 4 percent is provided on a loan of up to Rs 9 lakh. For the MIG II category, which is made up of individuals with an annual income of Rs 12-18 lakh, an interest subsidy of 3 percent is given on a loan of up to Rs 12 lakh.

The benefits under the scheme are typically in the Rs 2-2.5 lakh range. This is a big deal even for the segment earning between Rs 12 lakh to Rs 18 lakh per annum. Studies have indicated that in India, it is this income bracket that downloads the maximum number of apps for a Rs 200 cashback incentive.

“With larger sizes falling under the ambit of the scheme, now 90 to 95 percent of the properties in the market will get covered. Only about 5 percent of the properties will be outside the scheme. But very few people will get covered under this segment as a large majority of those earning between Rs 12 lakh to Rs 18 lakh may already have bought an apartment. Therefore, increasing the size limit would not make substantial difference. But whoever was left out and did not own a property in that salary bracket will now get a chance to own a property. Today the MIG segment contributes about 20 to 25 percent of the total number of beneficiaries. This percentage may now increase to 30 percent,” says a banker not wanting to be named.

Those who applied for the scheme after January 1, 2017 but whose applications were rejected on account of the size may also now get covered, he says.

Therefore, changes in the scheme will now provide more choices for those still scouting for houses. Earlier, those looking for units among the unsold inventory did not have much choice as there were lesser number of properties that fit the criteria in the 90 sq m to 150 sq m category.

"The earlier sizes did not help the aspirational homebuyer take a decision. The sizes of properties on offer were too small. The choices offered in the 90 sq m category were not good enough for him to take a decision to buy a first house and therefore the interest level was low. That may now change," says Rishi Mehra of Wishfin.

“Also, not all (earning between Rs 12 lakh to Rs 18 lakh) would have bought a house as not everybody earning that amount would come from grade A institutes where entry-level salaries are high. Many would be from grade B institutes who would have missed the bus as they were perhaps servicing educational or car loans. A buyer wanting to invest in a property worth Rs 40 lakh, requires at least 20 percent savings to be paid as down payment,” he says.

Nine-month deadline

The MIG scheme is valid until March 31, 2019. This means that only nine months are left for buyers to avail the scheme. “This may push a lot of sideliners into the market. This may account for another 10-15 percent. Housing loan take up may, therefore, increase by the same percentage down the line,” says Mehra.

"For developers, the government's decision to increase the home size for middle-income group (MIG) under the credit linked subsidy scheme (CLSS), will certainly help to clear the unsold inventory whereas the buyers can get more spacious homes. This decision will also encourage developers to launch new projects to give a boost to Housing for All and they will not be restricted to build smaller sizes apartments which currently is the mindset with affordable housing. This will also prove to be a big push for urban housing in tier II and III cities who are used to living in bigger spaces. The fence sitters specially, who were delaying their home purchase, will now be given a further push and they will be able to fulfill their dream of aspirational homes. This will also lead to higher investments in affordable housing segment,” says Surendra Hiranandani, CMD, House of Hiranandani.

Completed projects to witness traction

A large portion of unsold inventory will now come under the ambit of the PMAY scheme but traction going forward will primarily be for completed projects. “We have seen sales picking up in Maharashtra and Gujarat, where buyers have availed of the PMAY scheme. This is especially true for completed projects. In North India, traction is much less primarily on account of trust deficit with the developer and delays,” says the banker.

As per ANAROCK statistics, during 2017, out of the total 5.8 lakh residential units slated to be completed across the top 7 cities in India, only 1.5 lakh units were actually delivered until December 2017. This indicates that around 4.3 lakh units actually missed their stipulated completion deadlines.

The National Capital Region (NCR), one of the country’s largest residential markets, was seriously wounded by sudden policy changes, structural reforms - and the dubious practices of unscrupulous developers. As a result, it topped the list of cities with maximum project delays. Around 1.5 lakh units in NCR missed the 2017 deadline. The story in Mumbai Metropolitan Region (MMR) was no different with nearly 1.1 lakh units missing the said deadline.

In NCR, out of the total 1.9 lakh units expected to be delivered in 2017, only 42,500 units were given for possession as promised. Approximately 49 percent (~73,000 units) of the undelivered residential units were in Greater Noida, followed by 17 percent (~25,300 units) in Ghaziabad, 13% (~19,400 units) in Gurgaon and 11% (~16,000 units) in Noida, as per ANAROCK estimates.

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