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From The Economic Times

The 2025 Outlook for Housing Finance Companies: Diversifying Funding Sources to Meet the Growing Affordable Housing Demand

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Manish Sheth • ETBFSI
Published On Jan 18, 2025 at 08:00 AM IST

Our country continues to be the fastest growing economy in the world and there is no major concern on this front. The lower than expected GDP growth rate in the first two quarters appears to be temporary and should not remain as a prevailing trend in the next year. The government is likely to undertake fresh policy measures in 2025 to ensure better economic growth. The allocation for capital expenditure including the grant to states has been one of the highest so far and the benefit of this shall be seen in a couple of years to come. This shall also assist the housing demand.

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Given the growing demand for housing, mortgage lenders need to scout for additional funding avenues apart from the traditional avenues of funding. As the housing finance sector anticipates a surge in financial requirements to meet the rising housing demand, there arises a crucial need for diversification in funding sources. To bridge this demand gap in the coming years and propel sustained growth in the housing finance sector, RMBS (residential mortgage-backed security) emerges as a compelling solution which shall strengthen the ALM (asset and liability management) of the HFCs. Therefore, RMBS shall not only provide a distinct funding profile to HFCs but shall also unlock additional capital from diverse investor groups including Insurance companies, amongst other institutions. The decision to set up RMBS Development Company Limited (RDCL) is a step in the right direction, as it will facilitate the development of the domestic RMBS market, paving the way for the HFCs to raise funds, critical for meeting the housing needs of the country.1 Commercial papers (CP) and bonds can also be explored as alternative funding routes.As mentioned in the recently released report on Trend and Progress of Banking in India 2023-24 of RBI, "The reduction in NBFCs' reliance on banks for funds bodes well for overall financial stability."

According to industry reports, the cumulative affordable housing demand in the country is projected to reach 31.2 million by 2030, with the market size estimated at Rs 67 trillion. The government, led by Prime Minister Narendra Modi, launched the PM Awas Yojana to support economically weaker and middle-class families in urban areas. The second phase of the Pradhan Mantri Awas Yojana-Urban (PMAY 2.0) has now begun. Under this phase, around one crore families are expected to benefit over the next five years, receiving support to build, buy, or rent affordable houses.

While there is a pressing demand for affordable housing, the challenge remains on the supply side. Due to the elevated cost of land, developers are shying away from constructing affordable home projects. This is coupled with the challenge of low profitability in the project which again discourages participation in affordable housing projects. Also, the regulatory processes from land acquisition to project launch remain lengthy and complex, which got delayed during the first quarter due to elections. Needless to say, the prolonged time adds to the cost of the project. This has led to developers moving towards mid-premium to high premium projects to meet their targets. Amid this, a Government panel on Goods and Service Tax is looking to raise the affordable housing price limit from the current Rs 45 lakhs per unit to Rs.56 Lakhs per unit, making more homes eligible for the 1% GST rate that currently applies to affordable housing without input tax credit. Another important point in consideration is not to apply GST on the land component. If the interim recommendations are accepted, it could make housing more affordable.

This article is authored by Manish Sheth, Managing Director & CEO, JM Financial Home Loans. All views expressed are personal.