

SPECIAL RESIDENTIAL ZONES

A viable and compelling solution to India's affordable housing crisis

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1.Document Purpose

This document introduces and outlines the concept of a Special Residential Zone (SRZ) as a viable and compelling solution to tackle the compounding problem of affordable housing on a pan-India basis.

The proposal of the concept of SRZ's as a possible solution to the affordable housing crisis was first mooted by the author at the Inaugural session of CREDAI's NATCON 08 on 7.1.08 in New Delhi.

This is the 1st formal draft that is being circulated. The concept note can be modified to incorporate suggestions and inputs from various stakeholders including opinion leaders and experts in the field.

2.Genesis

It is well documented and understood that India is one of the fastest growing economies in the world along with being one of the most populated as well. Urban population of India is likely to grow from 285.3 million in 2001 (Census 2001) to 360 million in 2010, 410 million in 2015, 468 million in 2020 and 533 million in 2025, as per the projections based on historical growth pattern of population (1901 – 2001). Furthermore, as per the 1999-2000 census the share of agriculture in the total workforce has shown considerable decline to 57% from 60% in 1993-94. The share of primary sector is likely to decline further to 37% in 2030. This means a large number of rural workforces will migrate to urban areas in search of jobs in secondary and tertiary sector. It is important for them to have access to employment, shelter and related services failing which they will contribute to mushrooming growth of slums and substandard habitat.

The sheer growth of the economy combined with rapid urbanization of the population has created conditions that lead to a housing price rise, Urbanization of this scale needs to be supported by adequate living conditions for this newly urbanized segment and going forward quite clearly, the time is right for the government to take meaningful steps to create a policy which addresses and channels this growth in the right direction.

The SRZ proposal provides a compelling concrete framework that is both ethically and economically pleasing to all the participants concerned including the family which receives the benefits of improved, affordable living conditions.

Fortunately, India has a workable model in place in the form of SEZ's albeit not in the housing space, which I believe can be effectively applied with some modifications to the current situation. The basic purpose of an SEZ is to bring in economic prosperity to the region by creating conditions that attract establishments to set up organized commercial micro markets. These conditions in the form of waiver of various duties, exemptions from taxes, State and Central levies create the right reward management systems which motivate Investors, Developers, State and Central Governments as well as other beneficiaries to invest in land-use plans and contribute directly to the economic property of the region.

3.Supporting Evidence | Excerpts from the National Housing & Habitat Policy

Following is an excerpt from the NHHP mission statement (National Housing and Habitat Policy, 2007): -

“THE NHHP aims at achieving the following

This Policy seeks to emphasize appropriate fiscal concessions for housing and infrastructure.

This Policy seeks to accelerate construction activities for giving a boost to employment for vulnerable sections of society.

This Policy aims to promote development of cost-effective, quality approved building materials and technologies with a view to bringing down the cost of EWS/LIG houses.

*This Policy aims to complement poverty alleviation and employment generation programmes for achieving the overall objective of “**Affordable Housing For All**” (Emphasis not in original source) with sustainable development.*

This Policy dwells upon the roles of various stakeholders and specific action required pertaining to Land, Finance, Legal and Regulatory Reforms as well as Technology Support and Transfer.

This Policy seeks to accelerate the development of small and medium towns which can serve as generators of economic momentum with the objective of reducing the rate of migration to large cities.

Following are some other key excerpts from NHHP outlining the case for an SRZ: -

“ New Integrated Townships and Green-Field Development

*In view of the fact that 50% of India’s population is forecasted to be living in urban areas by 2041, it is necessary to **develop new integrated townships** (emphasis not in original source). These green-field townships should generally be located on comparatively degraded land excluding prime agricultural areas growing more than one crop with the help of assured irrigation. These green-field townships should be located at a reasonable distance from medium or large existing towns.....”*

“...Further, it is also important to develop mass rapid transport corridors between existing medium and large towns and new green-field towns so that the relationship between industry and commerce is developed to an optimum level...”

“ Balanced Regional Development

As India’s labour force witnesses a rural to urban shift, it is of critical importance that the rural and urban areas develop in a symbiotic manner. The way to bring about such a symbiotic development between rural and urban areas is by adopting “a Regional Planning approach.” The objective of such an approach is to develop a symbiotic rural-urban continuum, which is ecologically sustainable. The Town & Country Planning Acts of some States provide an ideal basis for Regional Planning.....”

Rural To Urban Shift of Labour

“..... The growth of the Indian workforce is also characterized by an increasing level of urbanization. At the onset of the 21st century (2001), 32% of the total workforce resided in urban areas. According to the 2001 Census, 29% of the urban workforce falls in the category of “main workers” and the balance in the category of “marginal workers.” The male-female composition of the urban workforce is structured in favour of male workers (the male-female ratio being 84:16 in 2001) although there has been some improvement in the volume of female employment. Further, it is of critical significance that 79% of the new jobs totaling 19.3 million between 1991-2001 were generated in urban areas and only 5 million jobs were generated in rural areas.....”

“..... One fourth of the country’s total urban population, numbering 80.7 million persons is below the poverty line. The urban poor constitute 26.7% of the total poor in the country. The fact that the number of urban poor has risen is in stark contrast with rural poverty, where both the total number of rural poor and its incidence vis-à-vis the rural population has fallen.....”

“..... The urban poor have limited access to basic services. According to the 2001 census, there is a 9% deficiency in drinking water, 26% in toilets and 23% in drainage. It is quite understandable that most of this shortage pertains to Slums.....”

“..... JNNURM - The Basic Services for the Urban Poor (BSUP) seeks to provide a garland of 7 entitlements/services

- Security of tenure, affordable housing, water, sanitation, health, education and social security - in low income settlements in the 63 Mission Cities. The Integrated Housing and Slum Development Programme (IHSDP) seeks to provide the aforementioned garland of 7 entitlements/services in towns/cities other than Mission cities.....”

With this backdrop, I would like to outline the concept of a Special Residential Zone, which if applied correctly has the potential to deliver good affordable shelter to the urbanized mass, **within a specified time frame**, that are going to drive India’s growth engine in future

4. Special Residential Zones (SRZ’s)

As of December end 2007, the PAN-INDIA average rate (per sq.ft) for a residential apartment is around Rs 2,700/- of which Rs. 700/- per sq.ft (little over 25%) can be directly attributed to various Local, State and Central Duties and Levies and Direct & Indirect taxes, some of them are outlined below :-

- a. VAT
- b. Service Tax
- c. TDS
- d. Stamp Duty on Sale
- e. Stamp Duty on Land
- f. Income Tax on Profit of development , materials , services
- g. Municipal premiums and Development charges
- h. Excise on materials
- i. Octroi

By any measure, this tax component is prohibitive and acts as a significant barrier for parties interested in developing large scale housing projects for the cost conscious urbanized mass market wishing to relocate. Yes, there are large scale housing projects being created but these are targeted towards the affluent segment which can afford to buy houses at the current market value which I have already mentioned, are out of reach for a majority of the population. Any attempt in creating low cost housing projects in the current market situation ultimately leads to poor construction & infrastructure quality and lowered standard of living for the residents in question. The result: houses that are little more than concretized ghettos or slums.

Clearly, there is a need to create an economic vehicle that supports and receives the demand for good quality affordable housing generated by the rapid urbanization of India which brings me to the basic definition and concept of an SRZ.

“A Special Residential Zone (SRZ) is a notified geographical region that is free of domestic taxes, levies and duties (both for the creation of, operation and maintenance of the SRZ) with special development rules to promote large scale, greenfield, affordable housing projects for the country’s masses. The SRZ would have a prescribed minimum number of dwelling units with a maximum prescribed size, and each SRZ would require adequate social infrastructure including schools, medical facilities etc.”

Put simply, a SRZ is a Special Zone which contains catchments of residential properties which have been accorded fiscal benefits in order to bring down the cost of housing and create a massive deliberate Urban Agglomeration that services the local commercial activity and vice versa.

The key idea is to create an interdependent living system which is not only self-sufficient but also has the potential to grow and inject growth into geographical areas around the SRZ.

As the learnings of SEZ’s notified / functioning in India have already shown us, creating the right economic and regulatory environment can bring in rapid prosperity on a large scale. After the SEZ Act, 2005 came into force 405 SEZ’s totaling up to some 68,000 hectares (1, 86,320 acres) have been given formal approval.

The learnings from the SEZs exercise thus far will be greatly advantageous to the creation of a SRZ ACT

The massive growth of SEZ’s in such a relatively short period is made possible only by altering specific fiscal policies for the region and by simplifying the approval / sanction processes and in addition creating Single Window Clearance & Administration systems. In a similar fashion, if the government creates similar concessions to for specific geographic regions, earmarked for developing large sustainable developments of small residential units, it would result in a massive spatial reorganization of the urban population across the country that could be leveraged to positively grow the economy as a whole, in addition to bringing down the housing prices in the targetted segment.

5. Benefits | Special Residential Zones (SRZ’s)

Though the benefits of having SRZ’s are many, a few of them are tabled below:-

- a. **Decreased Housing Cost** | Bringing good quality low cost greenfield housing to the mass market supported by a sustainable living infrastructure with integrated schools, medical facilities, play grounds etc.
- b. **Uniform Infrastructure & Housing Plan** | The SRZ would bring housing activities under one umbrella leading to better organization and implementation of national specifications & policies on a Pan-India basis.

- c. **Employment & Per Capita Income** | Massive employment generation in and around the SRZ leading to an improvement in the per-capita income and the GDP. In addition, various forward and backward linkages, will create additional employment opportunities.
- d. **Economic Growth of the region** | a large concentration of population would generate allied benefits with business activity rapidly proliferating around the peripheral areas of the SRZ. It also provides opportunity for home based activities.
- e. **Controlling Slum Population** | Presenting Slum residents with an option of affordable housing.
- f. **Planned Urban Development** | Systematic Urban Agglomeration instead of an Organic one resulting in better redistribution of resources and upliftment of living standards
- g. **Lesser Time to Development** | The time taken for sanctions and approvals can be reduced significantly by genuine single window clearances leading to a faster rate for project completion
- h. **ROI** | The time saved on account of faster project completion directly translates into a quicker release of locked funds that positively impacts the ROI and encourages more investments.
- i. **Revenue for Government** | the revenue generated from duties, taxes and other levies from the resultant growth in economic activity as a result of the SRZ would ultimately benefit the government at the Centre, State and local levels.

Furthermore, it is pertinent to note that the concessions of various exemptions of direct & Indirect taxes and duties will be cost neutral as the needs of this huge section of urban India that needs affordable housing is currently not being addressed

6. Some Guidelines| Special Residential Zones (SRZ's)

Since SRZ's are primarily SEZ's applied to a different sector, most administrative laws pertaining to the functioning of SEZ's would remain the same.

The variant parameters would relate to the specification of units to be developed along with uniform zoning rules. Since the theme is to create affordable good quality housing supported by conducive infrastructure, a typical SRZ would:

- a. Contain low sized units (typically in the range of 300 sq.ft to maximum of 750 sq.ft , limited to a maximum permissible average of 500 sq.ft)
- b. Have a minimum threshold on the number of units to be developed (typically medium scale urban agglomerations have populations of around 50,000 i.e around 10,000 residential units)
- c. The administration of the SEZ would be managed and monitored by the Resident Development Commissioners, after the approvals are recommended by the respective State and cleared by the Board of Approvals at the Centre.



- d. The funds of JNNURM could be used for connecting the SRZ's with the nearest urban agglomeration
- e. The Notification process for the SRZ's could be on the same pattern as the current notification process for SEZs
- f. Could have buildings with an FSI relevant to the infrastructure standards as stipulated and will have planned support infrastructure (community halls, gardens / play parks, health centers, education, shopping, etc).
- g. Will have effective measures & rules to prevent malpractices/ misuse of SRZ benefits The following list, though indicative and not exhaustive, lists some of these measures :-
 - i) A person can buy only one unit/ flats
 - ii) Average size of units should be 500 sq.ft (Range between 300 sq.ft – 750 sq.ft
 - iii) Combination of two units/flats not be permitted.
 - iv) Tax/Duty free materials brought for consumption specifically in SRZ's should not be diverted to other locations for use.

7. The Way Forward

Over the past 50 years the government has specified various developmental schemes (NSDP, SJSRY, TMHP, VAMBAY, Indira Awas, and NRY), to alleviate the housing conditions. These schemes though in the right spirit have had limited results on upliftment of population towards which they were targeted. The upliftment has been in isolated pockets in a few locations across the country. The key reason behind their limited success was that they were designed as individual schemes. This further reiterates the case for a uniform geographical region governed by a fiscal authority created specifically to preempt the very same situation experienced in the above-mentioned schemes.

Housing, being next only to food and clothing for the urban settlers, also holds the key to accelerate the pace of development. Investments in housing like any other industry, has a multiplier effect on income and employment. It is estimated that overall employment generation in the economy due to additional investment in the housing/construction is eight times the direct employment (IIM-Ahmedabad Study, 2000). The construction sector provides employment to 16% of the work force (absolute number 146 lakh-1997). It is growing at the rate of 7%. Out of this, the housing sector alone accounts for 85.5 lakh workers which is 55% of total construction work force.

Given the importance of the housing sector in the overall economy it is imperative that the government seriously starts thinking about systematically leveraging the urban growth by creating good quality affordable housing that prop up the economic development.

An SRZ layered with the right economic benefits in the form of specific waivers and exemptions from Direct & Indirect taxes and duties & levies across the board would create the right environment for developers and the government to come together and create something special for the urbanized Indian mass market consumer who needs basic affordable housing.

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