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Mortgage nanciers turn to affordable housing in hunt for higher yields, growth

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The push for affordable home financecomes against the backdrop of increasing competition from banks in the prime housing space.

SUMMARY

The affordable housing loan market in India is estimated to be ₹13 trillion, with Housing finance Companies (HFCs) constituting ₹6.9 trillion and banks having a share of ₹6.2 trillion
India's mortgage lenders are increasingly looking to finance affordable homes, betting on higher returns and backing from government housing schemes.
The push comes at a time of stiff competition from banks in the prime housing space. Banks and traditional housing finance companies (HFCs) prefer borrowers with high credit scores to extend loans at relatively lower rates, while affordable housing finance focuses on new-to-mortgage customers, especially in semi-urban and rural areas, with the potential to charge higher rates.
"Loan yields are certainly healthy in the affordable housing space vis-a-vis prime housing," said A.M. Karthik, senior vice-president and co-group head of financial sector ratings at Icra Ltd. "Secondly, there are competitive pressures in the typical larger-ticket prime housing loan from banks. Thirdly, there is a good amount of growth opportunity in the affordable space."

While 2024 saw a surge in private money into affordable housing companies, several traditional housing financiers (HFCs) are also investing in and expanding their affordable housing pie.
The share of HFCs in total credit to the housing sector, including banks, HFCs and other NBFCs combined, was 34.1% as of March 2023. Post the merger of erstwhile HDC with HDFC Bank in July 2023, their share fell to19.9% as of March 2024, as per RBI's Report on 'Trend and Progress of Banking in India 2023-24' released on 26 December.

Financing construction cost only

Most affordable housing finance goes into own construction for land owners, meaning lenders essentially finance only the construction cost. Therefore, ticket sizes typically tend to be lower, and lenders bene t from loan security and better yields, industry experts said. "Affordable housing business is on a high growth path, and there is limited alternative financing available, which is why more private equity money is coming in and the focus is on return on equity (RoE)," said Manish Jaiswal, managing director and chief executive of Grihum Housing Finance, an affordable housing financier backed by TPG. PNB Housing finance Ltd, backed by state-owned Punjab National Bank exited what it called the super-prime segment and is now planning to gradually shrink loans to prime segments. The focus areas now are affordable and emerging mortgage segments.

"In the prime segment, there is a lot of banks' competition, and therefore, there is pressure on margins," Girish Kousgi, chief executive, PNB Housing said earlier this month. He said that two years ago, PNB Housing decided it needed to get into a segment that is high-yield to expand. We launched Roshni (our affordable product) in January 2023," said Kousgi. Out of its ₹68,000 crore retail loan book, about ₹3,000 crore (4.4%) is affordable, ₹12,000 crore (17.6%) is to the emerging segment, and the remaining is in prime housing loans.

LIC into housing Finance

Earlier this year, LIC Housing financetoo decided to focus on the affordable housing segment, aiming to accelerate loan growth and achieve better margins, whereas Bajaj Housing financeentered the affordable housing segment in July 2024 with the launch of its 'Sambhav Home Loans' product targeted at the unserved and underserved customer segments. The affordable housing loan market in India is estimated at ₹13 trillion, with HFCs constituting ₹6.9 trillion and banks having a share of ₹6.2 trillion, as per National Housing Bank data cited by a joint report by industry lobby body CII and real estate consultancy Knight Frank in December. Most traditional or diversified HFCs have a loanbook comprising 20-30% of loans against property (LAP) and 5-10% of construction finance, with the rest financing at purchases and self
or plot construction.

The government's focus on affordable housing is a key driver for mortgage lenders. The Pradhan Mantri Awas Yojana (PMAY) has four pillars --the Interest Subvention Scheme (ISS) where typically 2-2.5 million customers get subsidies each year; Affordable Housing in Partnership (PMAY-AFP) scheme where the Centre works with private players or state development authorities; the direct beneficiary scheme and the rental housing scheme Affordable Rental Housing Complexes (ARHC). Across these, the government is aiming for about 30 million houses to be built in the next ve years, industry experts said. "Achieving this scale requires strategic interventions, particularly in addressing the equity capital needs of HFCs," said Grihum Housing's Jaiswal. Poonawalla Housing financewas sold to PE rm TPG in December 2023 and was subsequently renamed Grihum Housing Finance. While lenders are keen to push such loans, the affordable housing segment has not had it easy. As per data from property consultant Anarock Group, the share of affordable housing in total real estate supply has been on a decline since 2020, when it dropped to 30%, from 40% the previous "
In the current year, Bengaluru has been devoid of any supply in this segment. Hyderabad and Chennai also have recorded minimal supply of only 2%. The only active cities in the present time, that are ushering the supply in this segment (affordable) are Kolkata and the Mumbai metropolitan region, as nearly 31% of their total supply are priced below ₹40 lakh," said Prashant Thakur, regional director and head of research, Anarock Group.

However, there are opportunities as well. The CII-Knight Frank report forecasts that led by factors such as urbanization and employment opportunities, 22.2 million housing units will be required in urban centres in India. 95.2% of this demand, which is equivalent to 21.1 million units, will be in affordable housing. India's housing finance sector saw a tenfold jump in primary fundraising in 2024, as venture capital and private equity rms sought to diversify their portfolios with assets perceived as relatively less risky, Mint reported on 24 December. HFCs raised $826.8 million across nine rounds in 2024 against $82.6 million spanning ve rounds in the previous year, as per data from market intelligence provider Tracxn. That said, there is no one range for affordable housing loans, with different housing financiers categorizing affordable as starting from loans of ₹5-10 lakh and going up to even ₹60-70 lakh in some cases.

"Affordable housing is not significantly different or far away from the lower band of the current loan segments that the larger HFCs have been focussing on so far, and they can get a better yield by just moving slightly away from their current target group," Karthik of Icra said. Even so, affordable housing is a volume business, which is why larger HFCs are creating separate verticals to focus on this borrower segment, he added. The definition of affordable housing is also greatly dependent on the geographical location of the home unit. While in suburbs of metro cities, affordable housing could mean completed projects which classify as affordable based on the size and price, a bulk of the affordable finance in the country—about 70%--is centred around self-construction projects in tier-II and beyond cities, according to industry experts.

The PMAY scheme defines affordable housing as that for economically weaker sections and below ₹3 lakh, and low-income group as those with less than ₹6 lakh as per the 2011 census.
"Affordable housing will remain a heterogenous sector because it cannot be standard, it has to very tailored across what geographies the lenders focus on, the demographics, and the borrower pro le in terms of salaried and self employed and the income pro le," said Siddharth Goel, Director – APAC Non-bank Financial Institutions, Fitch Ratings. He added that the affordable housing space is a "bit more complicated" than large ticket housing and so companies need to build their own niche and have strong recovery and collection channels given that the underwriting is not only towards the collateral but also towards the borrowers' income problem which can also be informal and cash-based.

"Before IL&FS default, many HFCs had a sizeable portion of construction finance. In the mortgage business, you need a balance between high risk-high yield products and low risk-low yield products. With interest in construction finance ebbing, these lenders are looking at other higher yielding formats to balance their portfolio, and affordable housing is one such avenue--it is less competitive than large ticket housing and provides good yields," Goel said.