

India



Affordable Housing

Tackling Urban Housing Deficit Through Supply-Side Reforms

2025

This report examines supply-side challenges in India's affordable housing sector and puts forth viable suggestions to address them

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FOREWORD



Shishir Bajjal

Chairman and Managing Director - Knight Frank India

Affordable housing is more than a developmental goal—it is a cornerstone of inclusive growth and an essential driver of urban resilience. In India, the need for affordable homes is pressing, not only because of the rapid pace of urbanisation but also due to the growing aspirations of a young and mobile population. Yet, despite sustained policy interventions, the supply of affordable housing continues to trail far behind demand, creating an acute shortage that impacts both social welfare and economic productivity.

The supply-side dynamics of this sector are complex and deeply structural. High land acquisition costs, fragmented land titles, lengthy approval processes, limited access to developer finance, and rising input costs continue to erode project viability. At the same time, regulatory uncertainties, the absence of enabling infrastructure in peripheral areas, and challenges in adopting innovative construction technologies further constrain the ability of the ecosystem to respond effectively. Addressing these constraints requires a shift from incremental fixes to systemic solutions that balance affordability with sustainability.

This report provides a critical analysis of these supply-side challenges, drawing attention to the underlying bottlenecks that have prevented affordable housing from achieving scale. Importantly, it does not stop at identifying the problem—it explores forward-looking pathways to unlock supply.

The road ahead demands that stakeholders—policy makers, financial institutions, private developers, and civil society—work together to design a new ecosystem where affordable housing is no longer subsidy-dependent but self-sustaining, scalable, and inclusive. As India transitions toward becoming a USD 7trn economy and aspires to meet the housing needs of its growing urban population, the time is ripe for bold reforms and innovative practices.

This report is written with the conviction that India's affordable housing challenge is surmountable. By aligning policy, finance, technology, and governance, the country can not only bridge the housing gap but also create vibrant, equitable, and future-ready cities. The findings and recommendations presented here are intended to contribute to that national mission, encouraging dialogue, action, and long-term commitment from all stakeholders involved.

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FOREWORD



G Hari Babu

President - National Real Estate Development Council (NAREDCO)

Housing has always been more than just shelter, it is the foundation upon which families build dignity, security, and opportunity. In India, the quest for affordable housing has therefore become both a national imperative and a measure of our social progress.

As urbanisation accelerates and millions join the country's growing workforce, the need for accessible, quality homes has never been greater. Affordable housing stands at the intersection of economic growth and social equity, capable of transforming not only skylines but also the very fabric of communities. Meeting this demand is not simply about adding numbers to a housing stock; it is about creating inclusive cities where opportunity is shared and aspirations can take root.

Over the past decade, initiatives like the Pradhan Mantri Awas Yojana (PMAY) have laid important building blocks. Yet the path ahead is complex. Escalating construction costs, financing hurdles for economically weaker sections, and the urgent call for deeper private sector participation continue to test the sector. The challenge now is to move beyond incremental progress and adopt bold, innovative strategies – from embracing advanced construction technologies to designing financing models that truly democratise access.

This report seeks to frame these issues not merely as constraints but as opportunities. If addressed with foresight and collaboration, affordable housing can become one of India's most powerful levers for inclusive development.

As the National Head of NAREDCO, I hope this work inspires all stakeholders, policymakers, industry leaders, and investors to reimagine affordable housing as the cornerstone of India's urban future, and to commit to a vision where every Indian has a place to call home.

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INDIA AFFORDABLE HOUSING: TACKLING URBAN HOUSING DEFICIT THROUGH SUPPLY-SIDE REFORMS

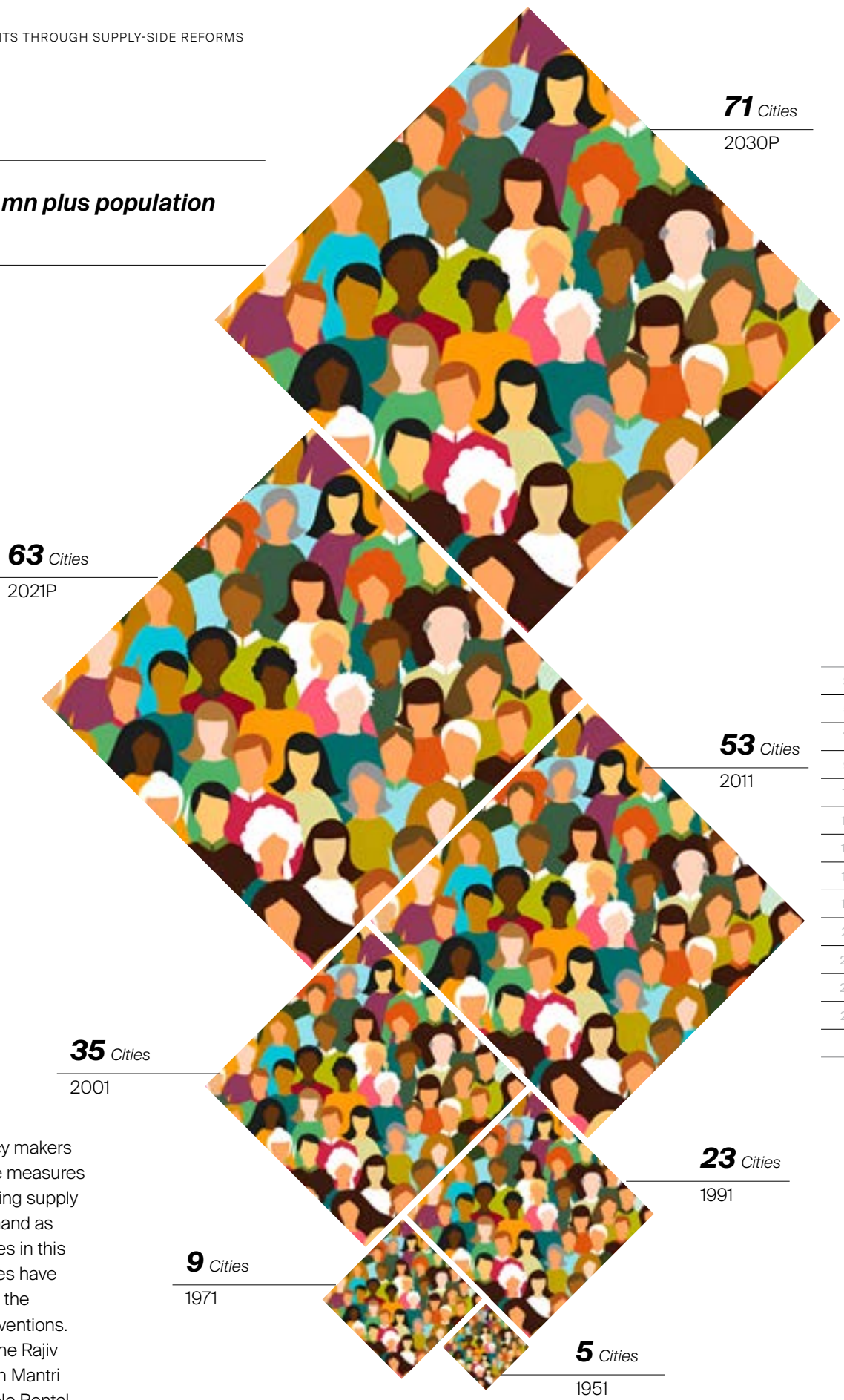
India is currently witnessing one of the fastest paces of urbanisation. Between 2014-24, urban population in India grew by ~23% compared to a global average of 8.4% globally (Source: World Bank). India is also one of the fastest growing economies, gaining traction across industries. In the coming years, as India strives to achieve its ambitious economic growth targets, there will be a surge in the growth of cities enhancing urbanization. Currently, 37% of India's population resides in urban areas, and this is expected to increase to 40% by 2030¹ led by migration and expansion of existing cities accentuated by economic growth.



The accelerating pace of urbanization is clearly reflected in the increasing number of cities in India with a population exceeding 1 mn. According to various estimates, India had 23 cities in 1991 with a population of 1 mn or more and is likely to have increased to 63 in 2021. By 2030, about 71 cities are estimated to have a population of 1 mn and above, of which 8 cities will be mega cities with a population above 10 mn. As Cities expand, and urban centres develop, infrastructure including the housing becomes an absolute necessity. Of this, there will be consistent demand for affordable housing arising from the housing needs of the lower income groups.

¹United Nations

Cities in India with 1 mn plus population



Over the last few years, policy makers in India have taken adequate measures to boost the affordable housing supply in India. While there are demand as well as supply side challenges in this segment, adequate measures have been undertaken to address the same via various policy interventions. Flagship initiatives such as the Rajiv Awas Yojana (2009), Pradhan Mantri Awas Yojana (2015), Affordable Rental Housing Complexes (ARHCs) etc. are some of key interventions undertaken in the last few years.



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Key programmes focusing on affordable housing in India

Policy/Scheme	Description	Target Group	Year of Initiation	Target
Rajiv Awas Yojana (RAY)	Aims to make India slum-free by providing affordable housing and improving slum conditions	Slum Dwellers	2009	Slum-free India
Pradhan Mantri Awas Yojana (PMAY 1.0)			2015	2 cr (20 mn) houses by 2022
- Urban (PMAY-U)	Provides interest subsidies on home loans for urban poor	Economically Weaker Sections, Lower & Middle Income Groups	2015	1 cr houses by 2022 (Further extended to 2024)
- Gramin (PMAY-G)	Financial assistance for constructing/upgrading homes in rural areas	Rural Poor	2016	2.94 cr houses by 2022 (Further extended to 2024)
Affordable Rental Housing Complexes (ARHCs)	Converts government-funded vacant houses into rental housing complexes	Urban Migrants and Poor	2020	Provide affordable rental housing for urban migrants/poor
National Urban Rental Housing Policy (NURHP)	Promotes rental housing as a viable option for urban residents	Urban Residents	2021	Increase rental housing stock
Pradhan Mantri Awas Yojana (PMAY) 2.0				3 cr (30 million) houses by 2029
- Urban (PMAY-U)	Provides interest subsidies on home loans for urban poor	Economically Weaker Sections, Lower & Middle Income Groups	2024	1 cr (10 mn) houses by 2029
- Gramin (PMAY-G)	Financial assistance for constructing/upgrading homes in rural areas	Rural Poor	2024	2 cr (20 mn) houses by 2029

Source: Government Documents, Knight Frank Research

The Pradhan Mantri Awas Yojana (PMAY), launched in 2015, aimed to address housing needs of low- and middle-income groups with a target of 20 mn urban and 30 mn rural homes by 2022. Implemented through four verticals—Beneficiary-Led Construction (BLC), Affordable Housing in Partnership (AHP), In-situ Slum Redevelopment (ISSR), and the Credit Linked Subsidy Scheme (CLSS)—the program was extended (except CLSS) to December 2024. In response to ongoing demand, PMAY 2.0 was introduced in 2024, targeting 10 mn urban and 20 mn rural homes over five years. It reintroduced the interest subsidy scheme (formerly CLSS) and refined beneficiary categories to better focus on economically weaker sections (EWS) and low-income groups (LIG).

PMAY 1.0 vs PMAY 2.0

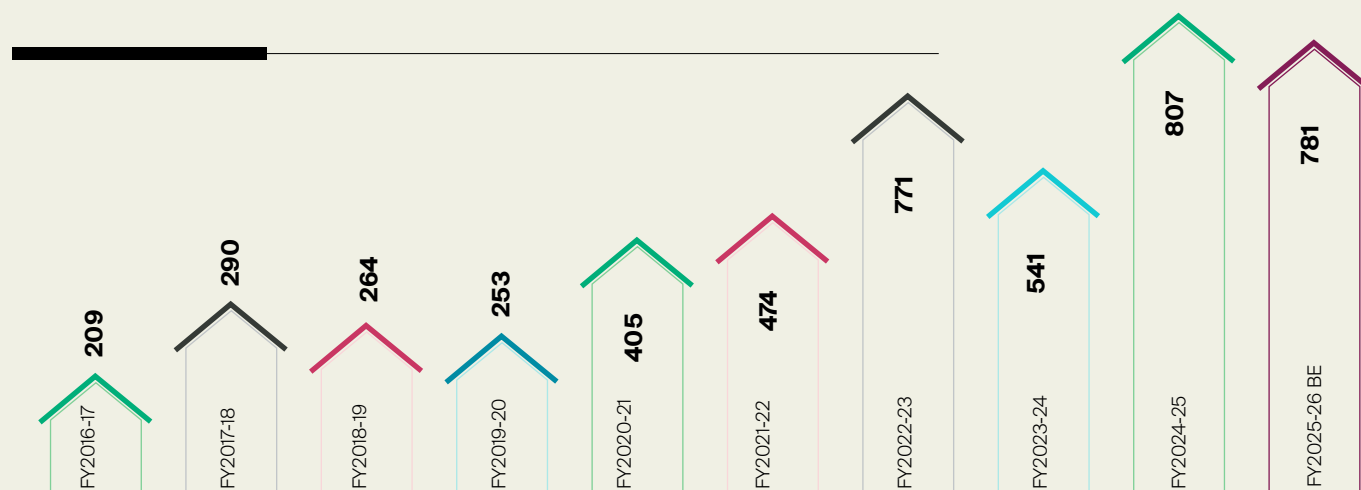
Aspect	PMAY 1.0	PMAY 2.0
Launch Year	2015	2024
Housing Target (in mn)	49.5	30
of which, urban	20	10
of which, rural	29.5	20
Schemes		
Urban	<ol style="list-style-type: none"> 1. In-situ slum redevelopment (ISSR) 2. Credit linked subsidy scheme (CLSS)* 3. Affordable housing in partnership (AHP) 4. Beneficiary led individual house construction (BLC) 5. Affordable rental housing complex (ARHC)* 	<ol style="list-style-type: none"> 1. Affordable housing in partnership (AHP) 2. Beneficiary led individual house construction (BLC) 3. Affordable rental housing (ARH)* 4. Interest subsidy scheme (ISS)
Rural	Financial assistance for housing	Financial assistance for housing
Beneficiary eligibility criteria		
Urban	<ol style="list-style-type: none"> 1. EWS households with annual income up to INR 3 lakhs 2. LIG households with annual income between 3 - 6 lakhs 3. MIG I households with annual income between 6 - 12 lakhs 4. MIG II households with annual income between 12 - 18 lakhs 	<ol style="list-style-type: none"> 1. EWS households with annual income up to INR 3 lakhs 2. LIG households with annual income between 3 - 6 lakhs 3. MIG households with annual income between 6 - 9 lakhs
Rural	Rural BPL households	Rural BPL households
Unit Size		
Urban (sq mt)	EWS: 30 LIG: 60 MIG I: 160 MIG II: 200	EWS: 30 LIG: 60 MIG: 160
Rural (sq mt)	25	25
Financial Assistance		
Urban	AHP: Central assistance of INR 1.5 lakh per EWS house BLC: Central assistance of up to INR 1.5 lakhs for EWS ISSR: Slum redevelopment grant of INR 1 lakh per house	AHP: INR 2.5 lakhs combined by central & states BLC: INR 2.5 lakhs combined by central & states ISS: Up to INR 1.8 lakhs per unit
Rural	<ol style="list-style-type: none"> 1. INR 1.20 lakhs in the plains 1. INR 1.30 lakhs in hilly regions 	<ol style="list-style-type: none"> 1. INR 1.20 lakhs in the plains 1. INR 1.30 lakhs in the plains
Interest Rate Subsidy		
Urban	EWS: 6.5% LIG: 6.5% MIG I: 4% MIG II: 3%	4% across all the income groups
Rural	3.0%	3.0%

While most components of PMAY 2.0 remain similar to PMAY 1.0, there has been a notable reduction in both the beneficiary category and the interest incentives. The beneficiary category has now been restricted to households with a maximum annual income of Rs 9 lakh (0.9 mn), focusing the scheme more sharply on the target segments—Economically Weaker Section (EWS), Low-Income Group (LIG), and Middle-Income Group (MIG).

However, the maximum interest subsidy under the Interest Subsidy Scheme (ISS) has been reduced to INR 1.8 lakhs (0.18 mn), compared to INR 0.267 mn under the Credit Linked Subsidy Scheme (CLSS) in PMAY 1.0. This reduction in subsidy, combined with the rise in housing prices over the past few years, increases the financial burden on beneficiaries by raising their effective loan repayment obligations, potentially narrowing overall affordability.



Central government budgetary allocation for PMAY (INR bn)



Source: Gol, Knight Frank Research

In addition to these flagship programs, the other measures include tax benefits, subsidised GST rates etc. In March 2019, the GST council implemented a noteworthy reduction in tax rates for the under-construction affordable housing category, bringing it down from 8% to 1%. These measures primarily focus on the consumer, stimulating demand. Complementing these efforts, the central government has also undertaken supply-side initiatives such as tax breaks on profits for the developers.

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Key interventions to support affordable housing

Incentive Type	Details
Direct Tax Benefits	<p>Section 80-IBA: Tax deductions for profits from affordable housing projects approved until March 31, 2022.</p> <p>Section 24: Deductions on interest paid on home loans, incentivizing first-time homebuyers under old income tax regime.</p>
GST Concessions	GST rate reduced to 1% from the earlier 8% for under-construction affordable homes.
Priority Sector Lending (PSL)	<p>Affordable housing projects are included in the harmonized master list, making them eligible for priority sector lending rates. The priority sector housing loan limits has been revised by over 40% across the categories; effective from FY 2025. Below are the revised loan limits:</p> <p>(i) For centres with population of 5 mn and above, loan limit is INR 5 mn and for a dwelling costing upto INR 6.3 mn</p> <p>(ii) For centres with population between 1 mn to 5 mn, loan limit is INR 4.5 mn and for a dwelling costing upto INR 5.7 mn</p> <p>(iii) For centres with population below 1 mn, loan limit is INR 3.5 mn and for a dwelling costing upto INR 4.4 mn</p>
Provision of Infrastructure Status	Enables benefits such as lower borrowing costs, tax concessions, increased flow of foreign and private capital.
Subsidies and Financial Assistance	Affordable Housing Fund (AHF): Established within the National Housing Bank, cost of re-financing is capped at 350 bps over 10-year G Sec yield.
Public-Private Partnerships (PPP)	Financial subsidies, government land, and cross-subsidies are used to make housing more affordable.
Green Building Incentives	Encouragement for sustainable building practices through incentives for green buildings.

Source: Gol, RBI, Knight Frank Research

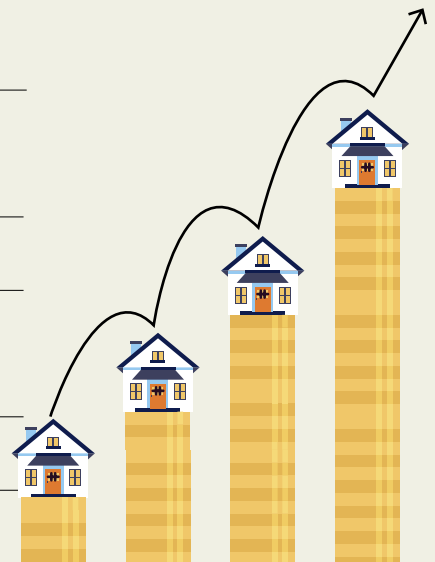
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ESTIMATION OF HOUSING REQUIREMENT

However, despite these policy measures, the affordable housing segment in India continues to be witness challenges. Despite all the necessary policy thrust, shortage in affordable housing category in India persists, primarily in the urban centres. As per our analysis, India currently has urban affordable housing shortage of 9.4 mn units.

Assessing existing affordable housing shortage

	Shortage as per	Units (in mn)
(i)	11th 5-year plan (2007-12)	24.7
(ii)	Technical Group on Urban Housing, TG-12 (2012-17)	18.8
(iii)	PMAY U - completed (until 15th Aug 2025)	9.4
(iii)-(ii)	Deficit	9.4



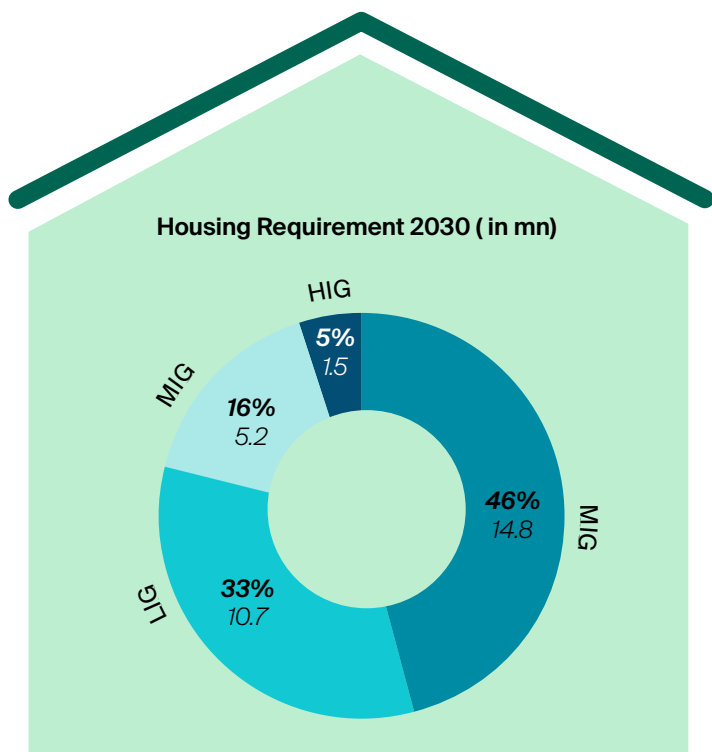
Source: 11th Five Year Plan, NHB, PMAY-U, Knight Frank Research

In addition to this as cities grow, India would need an addition of 22.2 mn units of housing across all the categories between now and 2030, and 79% of this demand, equivalent to 17.5 mn units, will be concentrated in the EWS and LIG households, with EWS comprising a larger share.

Overall, accounting the existing shortage the cumulative affordable housing demand (includes EWS, LIG and MIG) in India by 2030 is estimated to be 30 mn units.

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Cumulative housing demand across all income groups in India by 2030



Source: Knight Frank Research

Key Challenges in Affordable Housing Segment

The challenge in affordable housing persists both in the demand as well as supply side. Some of the demand side challenges include:

Diminishing affordability:

With increase in interest rates and fluctuating house prices, the affordability, i.e. EMI/Income ratio² of the households especially in the economically weaker sections (EWS) and lower income groups (LIGs) significantly gets depleted. So far in 2025, although the repo rate has reduced by 100 bps since Jan 2025, the MCLR rates are still above the pre-pandemic level. As per our analysis, accounting the interest rate hikes and price increase, in comparison to the pre-pandemic level, the EMI to income ratio of a EWS household has increased from 43% in 2020 to 60% currently, indicating 17 percentage points increase. In comparison, the EMI/Income ratio of the MIG household has increased from 28% in 2020 to 40% so far in 2025, a 11-percentage point increase. Thus, as the price

increases and interest rates fluctuate, the affordability of the EWS households gets depleted in comparison to the MIG household. While the EWS households may benefit from the interest rate subsidies, it is still subjective to their access to formal financing and annual incomes.

Challenges in access to formal financing:

The difficulty in accessing formal financing creates bottlenecks for the consumers, especially for households in the economically weaker sections (EWS) and lower-income groups (LIG) that are predominantly employed in the informal sector with limited documentation of their earnings. Consequently, these individuals encounter challenges in obtaining credit from banks and housing finance companies (HFCs). Currently only 16% of all the outstanding home loans are availed by EWS household³. A viable solution would involve the introducing of innovative financing models, such as micro-financing to address the housing financing needs of the EWS and LIG population.

Lack of supply:

The supply of affordable housing has a significant impact on housing demand, particularly among low- and middle-income groups. When more affordable units are made available, it lowers the entry barrier to homeownership, allowing previously underserved populations—such as young professionals, urban migrants, and first-time buyers—to enter the market. In the top 8 cities in India, the supply of affordable housing has declined from 52.4% in 2018 to 17% in 2025. Also, in many cities in India, the supply of affordable housing is increasingly emerging in the peripheral areas due to relatively cheaper land costs and easier availability of large land parcels. Developers, to maintain price points attractive to low- and middle-income buyers, often shift their projects to city outskirts where land acquisition is more feasible. However, these peripheral zones typically suffer from inadequate infrastructure—such as poor connectivity with employment hubs, deficient mass rapid transport systems (rail, metro, etc), lack of water and sewage systems, and insufficient social amenities like schools and healthcare facilities. As a result, while these areas offer affordable homes, they often lack the essential urban services required for sustainable living. This mismatch creates a challenge: although there is demand due to affordability, the absence of adequate infrastructure limits the livability and long-term desirability of these projects.

In the next section, we emphasise on the supply side challenges which has been hindering private sector participation in infusing affordable housing.

²Higher the EMI/Income ratio lower is the affordability and vice versa

³Annual report of select housing finance companies

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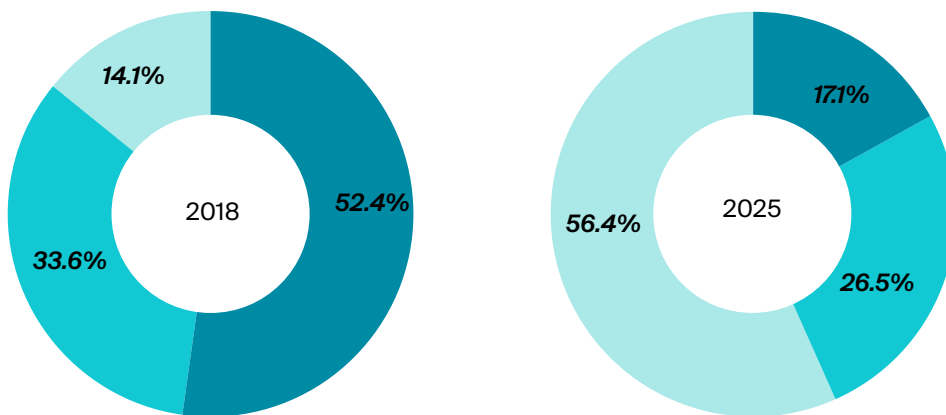
CHALLENGES HINDERING SCALABLE AFFORDABLE HOUSING SUPPLY

India's affordable housing sector faces persistent challenges in expanding supply to keep pace with the country's fast-growing urban population. Although policy initiatives like the Pradhan Mantri Awas Yojana (PMAY), Affordable Rental Housing Complexes (ARHCs) have laid the groundwork, the actual construction and delivery of affordable homes remain far from adequate.

In 2025 (Until June), the share of affordable housing, i.e value of housing units priced under INR 5 mn stood at 17%, a sharp decline from 52.4% in 2018. Thus, indicating decline in affordable housing supply in Indian cities. The receding number of launches in the affordable housing units is primarily attributed to the bottlenecks hindering private participation.

Residential launches across top 8 cities in India

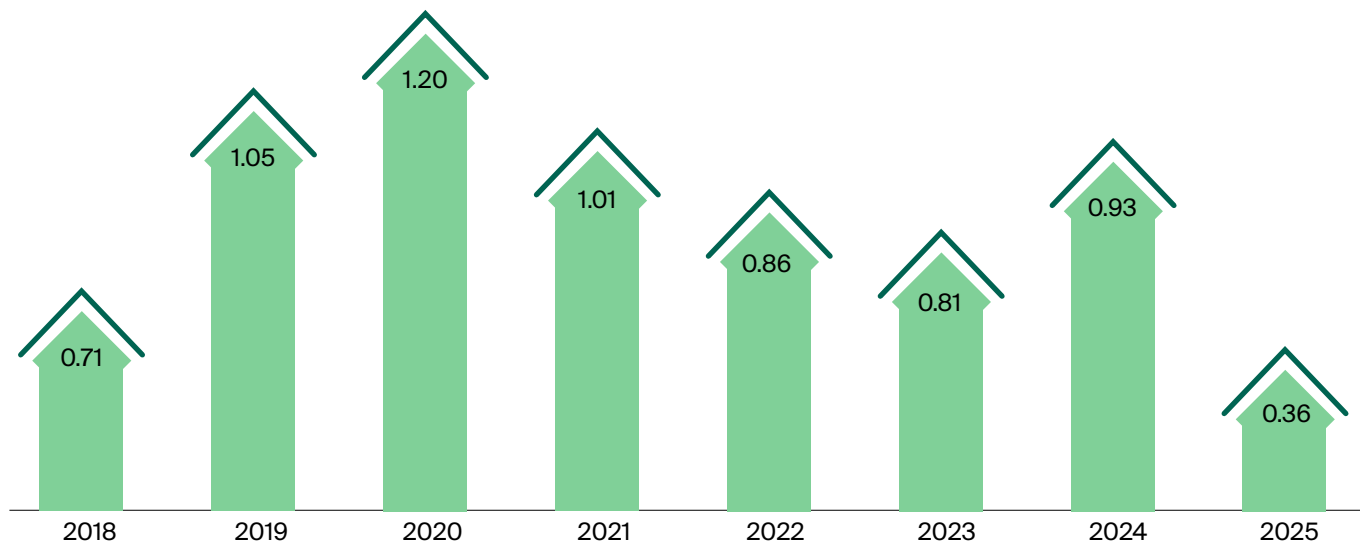
< 5mn **5-10 mn** **10 mn>**



Source: Knight Frank Research. Note: launches across top eight cities in India,2025 data is until June

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Launches lag sales in the affordable housing category



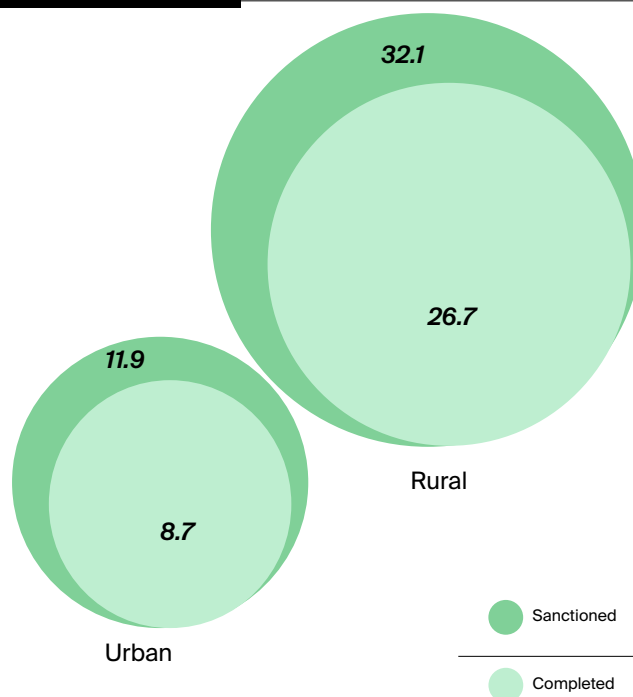
Source Knight Frank Research.

Note: Sales and launches of units under INR 5 mn across top eight cities in India; 2025 data is until June 2025

The launches-to-sales ratio for affordable housing in India reveals a clear shift from oversupply to acute undersupply over the past eight years. Between 2018 and 2020, the ratio consistently stayed at or above 1, peaking at 1.20 in 2020, indicating that developers were launching significantly more units than were being sold. This reflected an optimistic market environment driven by policy incentives such as PMAY, low interest rates, and strong buyer sentiment. Also, the demand was subdued in 2020 due to COVID-19 pandemic which led to a higher new launch to sales ratio of 1.20. From 2021 to 2024, the ratio moved below 1, underscoring that developers were aligning launches more closely with actual demand, due to rising construction costs, higher interest rates, and depleting affordability of the potential buyers. However, there has been a dramatic shift thus far in 2025, with the ratio plunging to just 0.36—signalling that new launches have collapsed to barely a third of sales. This sharp contraction points to an emerging supply crunch in the affordable housing segment, which could exacerbate price pressures, reduce buyer choice, and threaten the achievement of national housing targets unless corrective measures are introduced promptly.

The lag in supply is also witnessed at the macro level as seen in the variation in houses completed under PMAY in urban vis a vis, rural. During the PMAY 1.0 period between FY 2017-24, 83% of the houses sanctioned under the PMAY-G (rural) were completed, however, only 73% of the houses were completed under the PMAY-U (urban). Thus, indicating a lag in the supply of affordable housing in urban area.

Comparison in progress of PMAY in urban vs rural Units (in mn)



Source: MoHUA, Knight Frank Research

A range of interconnected issues—including high land costs, procedural bottlenecks, limited financing options, and insufficient institutional capacity—continue to restrict the sector’s ability to deliver large-scale, functional, and genuinely affordable housing. These structural hurdles have created a supply landscape that is unable to meet the demand in terms of quantity, quality, and speed. The following sections explore these supply-side constraints in detail.

1. High Cost and Limited Availability of Urban Land

Land serves as the cornerstone of any housing development, yet in urban India, it is both limited in availability and extremely expensive. For affordable housing to be viable, land must not only be cost-effective but also situated in locations with access to public transport, employment hubs, and essential services. In practice, however, acquiring such land in major metropolitan areas like Mumbai, Bengaluru, Delhi, and Chennai is economically unfeasible due to steep prices. As a result, developers are compelled to seek land on the peripheries of cities, where it is more affordable but typically disconnected from urban infrastructure. In the Mumbai Metropolitan Region, for instance, many affordable housing projects are located in distant zones such as Palghar, Karjat, and Vasai-Virar—areas that can be up to three hours away from central business districts. This geographic disconnect imposes high commuting costs on residents and undermines the desirability of such housing, even when prices are lower.

Compounding this issue are persistent legal and administrative obstacles in the land acquisition process. In numerous cases, land records are outdated, incomplete, or not digitized, leading to disputes over ownership and protracted legal proceedings. Fragmented landholdings and non-transparent ownership also make consolidation difficult. State-level policies such as land pooling initiatives often face delays and resistance; for example, the implementation of Delhi’s Land Pooling Policy has been repeatedly stalled due to sluggish approvals and opposition from stakeholders. These uncertainties surrounding land acquisition, title verification, and ownership rights elevate both the cost and risk of development, deterring private sector participation in the affordable housing segment.

2. Inadequate Institutional Investments

The affordable housing segment in India has seen minimal engagement from major institutional investors, large-scale developers, and public sector institutions. Instead, the bulk of construction activity in this space is driven by small and local developers who typically face constraints in terms of funding, project execution, and adherence to regulatory standards. In contrast, bigger real estate firms tend to focus on mid- to high-

income housing markets, which offer higher profit margins, better alignment with their brand, and easier access to finance. Private equity firms and infrastructure-focused investors have generally avoided the affordable housing space due to perceived challenges, including thin returns, implementation risks, and the lack of a replicable, scalable delivery model.

As witnessed above, the participation of private developers in affordable housing in India has been declining due to financial infeasibility of the projects and lack of adequate incentives. With the decline in private participation, there has been a decline in institutional investments in affordable housing projects in India. To promote affordable housing, the government has made efforts to create an enabling environment and eco-system. In FY 2017, a key provision was made in the form of granting of infrastructure status to affordable housing to provide benefits such as lower borrowing costs, tax concessions and increased inflow of private capital.

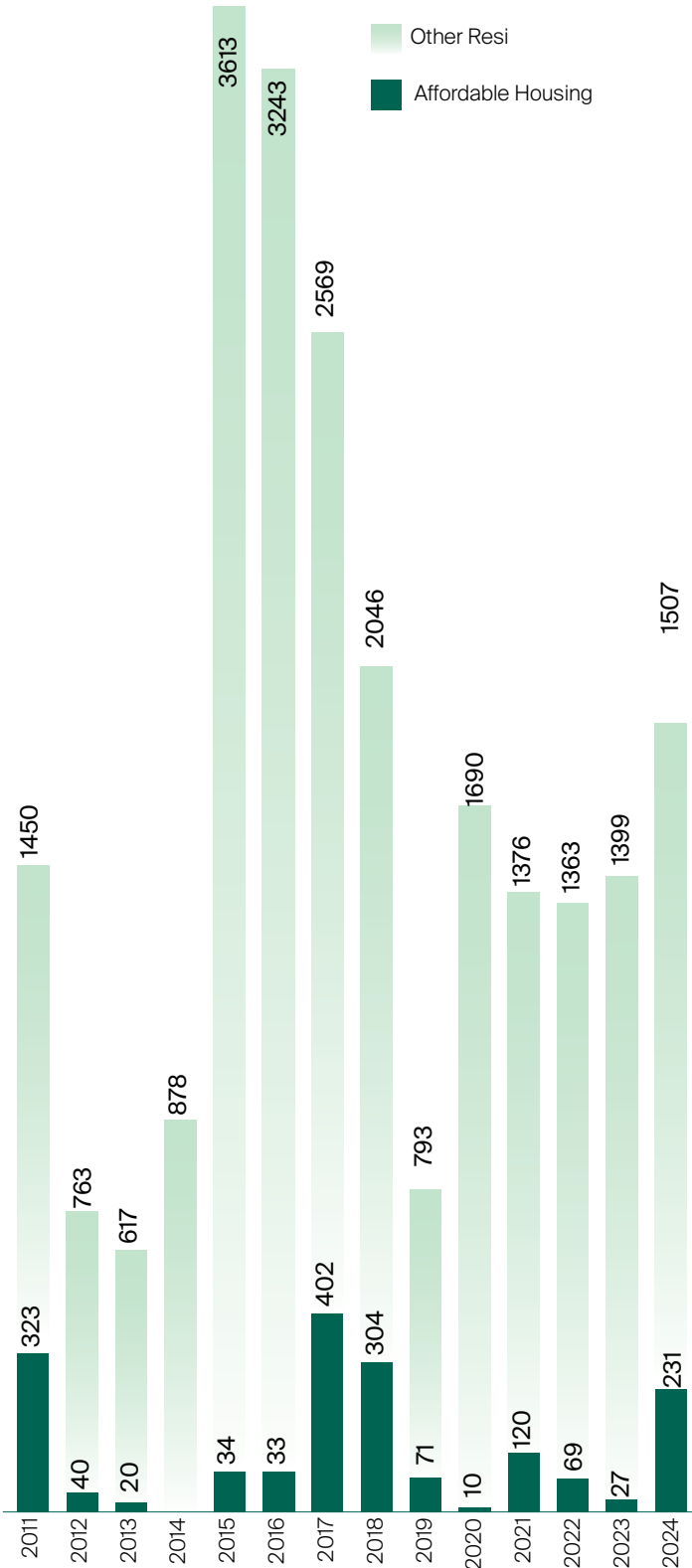
However, despite the policies, private participation along with developers and the institutional investments in affordable housing segment in India has remained negligible.

Between 2011-2024, the capital inflows into affordable housing segment was USD 1.9 bn, which is merely 7.8% of the capital inflow into the overall residential sector or 3.6% of the total inflow into the real estate sector. Primarily, it is the inflow of foreign funds that has been muted. Of the total PE inflow into affordable housing, merely 10% of the PE funds are investments by foreign funds.



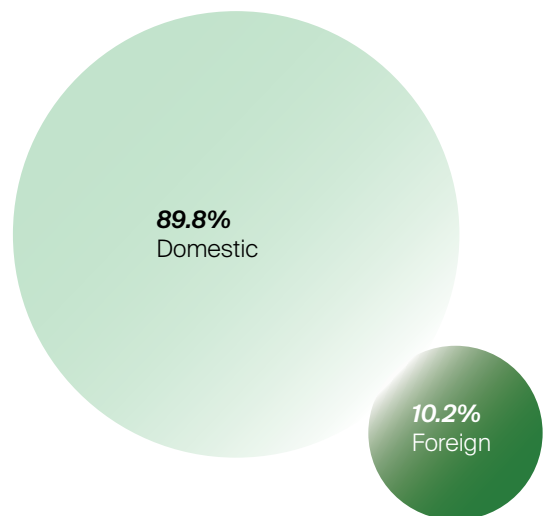
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Private Equity Inflow Into Residential Sector (USD mn)



Foreign funds accounted for merely 10.2% of the capital inflow into affordable housing segment between 2019-24.

Composition of capital market inflow into affordable housing segment in India 2019-24 (USD mn)



Source: Venture Intelligence, Knight Frank Research, 2024 data is until September 2024

Source: Venture Intelligence, Knight Frank Research

Urban Infrastructure Gaps in Peripheral Areas

In an effort to reduce land acquisition expenses, many affordable housing developments are located on the outskirts of urban areas. However, these peripheral zones are frequently under-serviced, lacking the essential infrastructure necessary to support liveable communities. Basic urban amenities such as sewage networks, clean water supply, reliable electricity, drainage systems, waste management, and paved roads are often either incomplete or entirely absent. For instance, the DDA's housing project in Narela has been facing challenges of low occupancy rates as it suffers from poor connectivity to the urban core and limited public transportation options, making it less appealing to potential residents despite lower housing prices.

For the developers as well, these infrastructure deficit poses multiple challenges. Construction timelines are often extended due to delays in provisioning essential services, and developers may be compelled to invest in or co-develop these facilities, adding to project costs. The situation is further worsened by the lack of nearby educational institutions, healthcare facilities, retail markets, and adequate policing or security measures. As a result, buyer interest tends to be weak, occupancy rates remain low, and in some cases, completed units are left uninhabited. Over time, this disconnect between housing provision and infrastructure planning risks creating poorly serviced enclaves that replicate the very conditions affordable housing policies aim to eliminate—thus undermining goals of equitable and inclusive urban growth.



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REGULATORY AND APPROVAL BOTTLENECKS

One of the most significant hurdles facing affordable housing development in India is the cumbersome and fragmented regulatory process. Developers must secure a range of approvals—including land use conversion, environmental clearances, zoning permissions, structural certifications, and utility connections—before construction can even begin. These approvals are often managed by multiple departments across different levels of government, making the process slow, opaque, and inconsistent. Single-window clearance systems introduced in several states aim to simplify the process, however, these systems are often poorly integrated, partly digitized, and still reliant on manual interventions that slow down progress.

In rapidly urbanizing regions such as Greater Noida and Faridabad, delays in securing essential approvals have become a persistent issue. In many cases, developers wait over a year for basic layout or environmental clearances, despite having submitted complete documentation. These delays are especially damaging for affordable housing projects, which are time-sensitive and financially constrained. Unlike high-end real estate, affordable projects operate with low margins and depend heavily on timely execution to qualify for government-linked subsidies and incentives. Smaller developers, who form the bulk of participants in this segment, are disproportionately affected as they often lack the legal and administrative support required to manage extended bureaucratic procedures.

In addition to approval delays, frequent and unpredictable changes to local regulations—such as modifications to building codes or floor area ratios—create further uncertainty. Such changes, often implemented without clear transitional provisions, can force affordable housing developers to alter project designs mid-way, leading to cost escalations and project delays. This lack of regulatory stability makes affordable housing projects unattractive to institutional investors, who typically seek more predictable and structured project environments. Ultimately, the current regulatory framework not only delays housing delivery but also discourages participation from larger, more capable players who could otherwise scale up affordable housing supply.



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POLICY RECOMMENDATIONS TO BOOST AFFORDABLE HOUSING SUPPLY

To address this issue, there is a need to increase private real estate developer participation in the affordable housing segment, making it profitable and attractive for institutional participation. This can be achieved through provision of incentives and by enhancing or introducing alternative funding and financing mechanisms for affordable housing projects in India. Some incentives that could make these projects financially viable for private real estate developers include:

- 1. Tax benefits and subsidies*
- 2. Lower-interest loans*
- 3. Provision of land*
- 4. Streamlined regulatory processes*
- 5. Grants and financial assistance programs*

In the section below, we have discussed some of the key policy support initiatives in detail:

1. Provision of vacant PSU lands to private developers

The high population density in urban areas has resulted in a substantial demand for urban land, thereby driving up land costs. The lack of availability of affordable land stands as a significant obstacle to creating affordable housing in cities, leading to a shift in development focus towards suburban areas. However, the lack of adequate transport and social infrastructure disincentivises home purchases in the suburbs in the affordable category.

A potential solution lies in repurposing vacant lands owned by various Public Sector Undertakings (PSUs) such as railways, defence etc for affordable housing projects through public-private partnerships. While the vacant PSU lands have the potential for monetisation to raise financial resources, unlocking a portion of it for affordable housing can cater to the equitable social and economic growth of the city. As per our estimates, assuming a national average FSI of 2.5, the land requirement to develop the estimated 30 mn affordable housing units in India is estimated to be 0.19 mn acres. Some PSU entities are actively participating in developing affordable housing on their vacant lands in urban centres. Such initiatives reduce the land cost which is nearly 40-50% of the construction cost, enabling a financially feasible development of affordable housing units. It also attracts buyers, as it reduces transportation costs and provides easy access to social and physical infrastructure.

Case study of CIDCO housing in Navi Mumbai

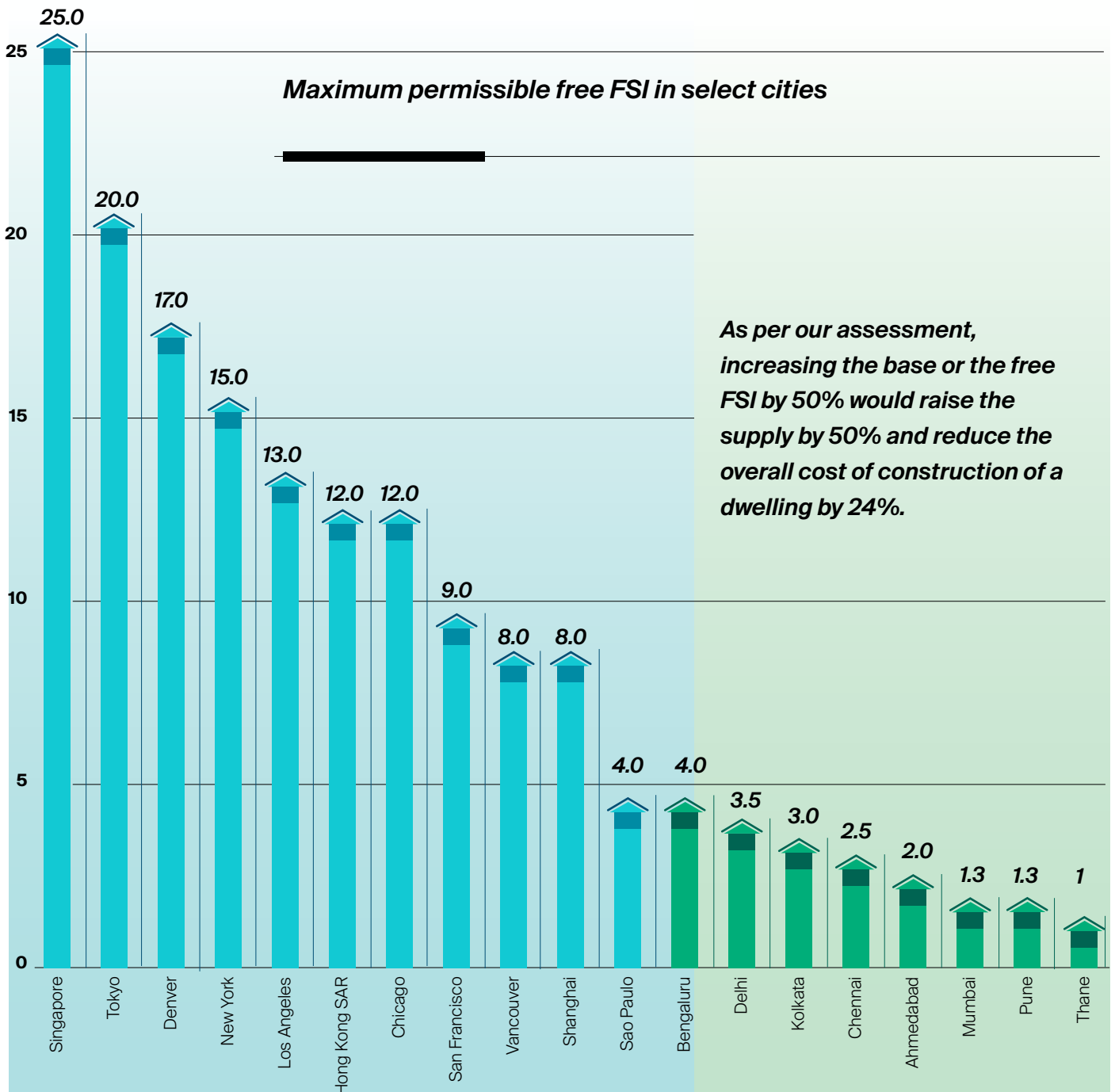
The CIDCO Mass Housing Scheme in Kharghar, Navi Mumbai, launched on October 11, 2024, aims to provide affordable housing for the Economically Weaker Sections (EWS) and Low-Income Groups (LIG). As the project is being developed on the land owned by CIDCO, it significantly reduces the construction cost. The first phase includes 26,000 homes, strategically located near public transport facilities like railway stations, bus stops, and metro stations as part of CIDCO's transit-oriented development strategy. The housing complexes are built using modern construction techniques to ensure durability and cost-effectiveness, and they feature ample community spaces, comprehensive infrastructure, and essential amenities such as water supply, electricity, and sanitation facilities. The scheme's transport connectivity is robust, with Kharghar Railway Station providing direct links to major areas in Navi Mumbai and Mumbai, numerous BEST and NMMT bus routes, and proximity to major roads like the Mumbai-Parvel Expressway. The upcoming Navi Mumbai Metro will further enhance connectivity. The project has received a huge response with around 70,000 applications for the 26,000 homes, indicating high demand for affordable housing. The phased implementation of the project aims to manage this demand effectively. Overall, the CIDCO Mass Housing Scheme in Kharghar is a significant initiative that addresses the housing needs of economically weaker sections and low-income groups, with a strong focus on sustainability and accessibility.

CIDCO Affordable Housing Project in Navi Mumbai



2. Extending Free Floor Area Ratio (FAR)/Floor Space Index (FSI)

The FSI/FAR limits in Indian cities are very restrictive when compared globally. As the population pressure on cities in India continues to increase, limited FAR/FSI leads to an increase in prices. This restricts the home purchasing capacity of households especially in the lower income groups. It also increases the financial cost of an affordable housing project making it unviable for the developer as it impacts their profitability. Any additional FAR/FSI beyond the free permissible limit must be purchased at a considerably higher cost. This consequently raises the construction cost resulting in a rise in selling prices, adding stress to the consumer purchases. Increasing the free/base FSI for the affordable housing development can potentially reduce the overall cost of the dwelling and make it financially conducive for the developer to infuse supply while benefiting the consumer. As per our assessment, increasing the base or the free FSI by 50% would raise the supply by 50% and reduce the overall cost of construction of a dwelling by 24%.



Impact assessment of increasing base or free FSI

	Existing	Recommended	% Change
Land price per sq ft (INR)	6000		
Area (sq ft)	6000		
Plot cost (INR)	3,60,00,000		
Free FSI	1.0	1.5	50%
Developmental area (sq ft)	6000	9000	50%
Size of the dwelling (sq ft)	300	300	0%
Units	20	30	50%
Per unit cost estimation			
Total land cost	18,00,000	12,00,000	-33%
Construction cost (INR 2500 per sq ft)	7,50,000	7,50,000	0%
Total cost of construction adwelling (In INR)	25,50,000	19,50,000	-24%
Cost per sq ft	8,500	6,500	-24%

Source: Knight Frank Research

3. Provision of subsidised construction finance

While the provision of vacant government-owned land at concessional rates can substantially reduce construction costs for developers, access to subsidised borrowings is equally critical for enhancing the financial viability of affordable housing projects. Lower capital costs translate into improved project margins and higher returns, which can attract institutional investments and long-term capital through increased private sector participation. In Maharashtra, the MHADA (Maharashtra Housing and Area Development Authority) provides land at concessional rates for affordable housing, while private developers often face challenges in obtaining low-cost finance despite having land banks. Similarly, in Gujarat's Ahmedabad Urban Development Authority (AUDA) area, vacant government land has been allocated for EWS/LIG housing, but projects by private developers struggle to secure viability without interest subvention.

Despite its importance in boosting end-user demand, there are limited access to construction finance for private developers even when their projects are aligned with affordability norms under PMAY or state housing missions. This exclusion creates a structural imbalance. While

homebuyers benefit from subsidised loans, developers—especially private ones—must rely on commercial finance at interest rates as high as 10–14%, making low-margin affordable projects financially unviable. As a result, many private developers choose to avoid the EWS/LIG segment altogether, despite owning suitable land parcels or having the capacity to execute such projects at scale.

Several countries, including Australia, Canada, France, Germany, and the Netherlands, provide preferential loans to property developers to boost affordable housing supply. These loans are offered at subsidised interest rates (as low as 0.75%–2%) with long tenures (up to 50 years) and are often backed by public guarantees or development banks. For example, Canada's CMHC offers up to 100% of eligible project costs through the Rental Construction Financing Initiative, while Australia's NHFIC provides low-interest, government-backed loans via bond aggregators. In Europe, the European Investment Bank (EIB) finances up to 75% of project costs, and in some cases, blends EU funds to cover 100%, particularly for energy-efficient and social housing. These models have successfully attracted private participation by reducing

developers' capital costs, enhancing project viability, and ensuring long-term affordability—offering a scalable approach that India could adapt to strengthen its own affordable housing ecosystem.

To unlock the potential of private sector participation and encourage institutional investment, the AHF must evolve into a dual-purpose tool—supporting both the demand side (homebuyers) and the supply side (developers). A separate lending window under AHF could be established to provide low-interest construction loans to developers undertaking affordable housing projects that meet prescribed standards. This could be accompanied by a credit guarantee mechanism or a viability gap funding structure to de-risk lending to developers and ensure compliance with affordability benchmarks. Additionally, concessional loans could be tied to verified project outcomes, including adherence to PMAY norms, timely delivery, and allocation to eligible beneficiaries.

4. Provision of tax incentives

While there exist income tax and GST incentives for home buyers in India, such provisions are limited for private developers. Currently, the 'Affordable Housing Partnership' under PMAY scheme provides 100% tax waiver for the developers on profitability from affordable housing projects for one year. However, owing to increasing costs, profitability for developers in this segment is minimal. Hence, this is not an adequate incentive for developers to participate in the construction of affordable housing projects. There is a broader need for tax incentives which can encourage private developers to participate in affordable housing development. Globally, several countries are providing varied incentives in the form of tax rebates, credits, incentives etc. Incentives such as provision of tax credits in the US has mobilised nearly USD 8 bn of private investments annually in affordable housing.

Select countries providing incentives to developers for affordable housing

Country	Program	Tax Exemption/Rebate Provided
United States	Low-Income Housing Tax Credit (LIHTC)	1) Dollar-to-dollar reduction in federal tax liability for developers. 2) Developers receive non-refundable and transferable tax credits, which can be 4% or 9% of the eligible development cost to be sold to banks for raising capital.
Canada	Affordable Housing Tax Incentives	100% rebate on the Goods and Services Tax (GST) or the federal portion of the Harmonized Sales Tax (HST) for new purpose-built rental housing.
Brazil	Minha Casa Minha Vida (My House My Life)	High subsidies and tax incentives for developers building affordable housing for low-income families.

Source: Government documents of respective countries. Knight Frank Research

Therefore, providing some of the above-mentioned support measures and incentives can encourage greater private participation in the affordable housing sector by improving project profitability and overall financial viability. This, in turn, would enhance the ability of developers to raise capital from institutional investors. On the demand side, there have been notable policy revisions—such as the RBI's upward revision of the priority sector home loan limit and the revival of interest rate subsidies through the Interest Subsidy Scheme (ISS) under PMAY 2.0. Interestingly, several of these measures were strongly recommended in the earlier edition of our report⁴. While the demand-side constraints are being actively addressed, it is equally critical to tackle the supply-side challenges in India's affordable housing segment. Focused policy interventions that can attract and retain private participation—both from developers and investors—are essential. Addressing these gaps will significantly strengthen the government's ability to achieve its **"Housing for All"** targets.

⁴Affordable Housing in India, Knight Frank, 2024

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CONCLUSION

In conclusion, the need for affordable housing in India's urban centres is rising sharply, yet supply continues to lag due to high land costs, expensive construction finance, regulatory hurdles, and insufficient incentives for private developers. While demand-side measures like the Credit Linked Subsidy Scheme (CLSS) under PMAY have improved buyer affordability, they fall short of addressing the financial viability of supply. Closing this gap requires targeted actions to ease developer constraints—through subsidised construction finance, faster approvals, public-private partnerships on idle public land, and credit guarantees. Expanding the Affordable Housing Fund's mandate to provide low-interest, long-tenure loans to private developers can further reduce costs, improve returns, and attract institutional capital. By resolving these supply-side bottlenecks, India can unlock larger private participation and accelerate progress towards its **'Housing for All'** goal.



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Knight Frank India, with its headquarters located in Mumbai, the company boasts of a team of over 1,900 experts strategically placed across key cities, including Bengaluru, Delhi – NCR, Pune, Hyderabad, Chennai, Kolkata, and Ahmedabad. Leveraging robust research and analytics, our experts provide an extensive array of real estate services encompassing advisory, valuation, consulting, and transactions (covering commercial, industrial & logistics, capital markets, land, residential, and retail). Additionally, we excel in project management as well as facilities and asset management.

Renowned for our profound expertise, Knight Frank India has established a formidable presence in the real estate sector. Our services span property transactions, including buying, selling, leasing, and management. With a commitment to providing valuable market research and insights, we empower clients to make well-informed decisions.

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NAREDCO

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The National Real Estate Development Council (NAREDCO) was founded in 1998 as a national body under the patronage of the Ministry of Housing and Urban Affairs, Government of India. Shri Ram Jethmalani, who was then the Hon'ble Union Minister of Urban Affairs and Employment, played a key role in its establishment. Since its inception, the Hon'ble Union Minister for Housing and Urban Affairs, Government of India, is the ex-officio Chief Patron of NAREDCO. Various Ministries of Union Govt. and Central PSUs have nominated their officers in the Governing Council of NAREDCO.

Led by Shri Hari Babu as President, Shri Parveen Jain as Chairman Emeritus, Dr. Niranjana Hiranandani as Chairman and Shri Rajan Bandelkar as Vice Chairman, NAREDCO strives to elevate and streamline the Indian real estate sector. It provides a credible platform for the government, real estate industry, and the public to address issues and find effective solutions. NAREDCO is dedicated to raising operational standards in building, construction, and real estate marketing while actively participating in shaping national policies for fiscal reforms. By doing so, it plays a catalytic role in fostering economic growth within India's real estate industry.

Housing and Urban Development Corporation (HUDCO), National Housing Bank (NHB), National Building Construction Corporation (NBCC), BMTPC, DDA, MP Housing, IRCON International, Tamil Nadu Housing Board, LIC HFL, HDFC, State Bank of India, Shriram HFL, Indiabulls HFL, Cement Manufacturers Association besides leading developers like DLF, K Raheja Corp, Mahindra Lifespace, Max Estates, Hiranandani Group, Prestige Estate Project Ltd., K Raheja Construction, Tata Housing, Adani, Godrej, Hotcrete Infrastructure, Tulip Infratech, Omaxe, Raheja Developers, Hinduja Realty, etc are the members of NAREDCO.

NAREDCO's structure includes National, State, and City Councils, ensuring its policy recommendations genuinely reflect on-the-ground realities across India's diverse regions. Currently, NAREDCO has over 15,000 members nationwide, with active chapters in various states. NAREDCO has played a pivotal role in advancing India's real estate sector by organizing events that promote excellence and uphold high standards. Its efforts have greatly contributed to the industry's overall growth. Aligned with government initiatives and policies, NAREDCO is dedicated to supporting India's vision of becoming a "Viksit Bharat" by 2047.

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