



FEATURE

Low-Income Housing Finance: The Next Big Opportunity

While the supply of housing in the low-income segment is improving, the next BIG challenge is home financing - as a majority of the customers need a housing loan. There is a huge untapped opportunity to provide housing finance to customers (especially those in the informal sector), as they are perceived to be "high risk" and are practically unserved by existing financial institutions. This represents a large commercially viable business opportunity, and households in our target income segment (Rs. 7–20K) alone represent a potential market of over Rs. 1,100,000 crores (\$ 250 billion)

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Monitor Partners with Muthoot Pappachan Group to Increase Supply in Affordable Housing Finance

Monitor Group has entered into an engagement with Muthoot Pappachan Group to help them build a sustainable and differentiated presence in the housing finance market. Muthoot is looking to expand its current business - which is focussed on gold loans and small business lending, to mortgages to consumers in the low income segment, who are seeking to buy housing in the Rs. 3–9 lakh price range. Monitor will help Muthoot develop a business blueprint for its housing finance operations, with the focus creating a sustainable strategy to meet the rising demand in this market.

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Monitor Enters into a Collaboration with Mahindra Rural Housing Finance

Monitor Inclusive Markets is collaborating with Mahindra Rural Housing Finance for sharing of knowledge and non-proprietary information on the low income housing business. Under the collaboration, both Monitor and Mahindra Rural will share with each other the learnings in the area of low income housing over a 1 year horizon.

SECTOR NEWS

Rockefeller Foundation's Impact Investing Initiative

The Rockefeller Foundation launched its "Harnessing the Power of Impact Investing" initiative, as a complement to its charity and government work, in an effort to bring social and environmental solutions to scale. Impact investments are investments that seek to solve social and environmental problems while also generating a profit. The Foundation's Impact Investing initiative aims to catalyze the leadership that this emerging industry needs at this crucial stage in its development.

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Janaadhar Launches Affordable Housing

Janaadhar Constructions, an affordable housing project promoted by Janalakshmi Social Services, launched its first affordable housing project in Bangalore on April 15, 2010. The project, 'Janaadhar Shubha' comprises of 1,140 flats with total saleable area of 0.7 million sq ft. The first phase of the project comprises of 528 flats of 400 sq ft each and will cost ~Rs. 4 Lakh excluding property registration and other charges.

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Nidhi Hegde and Tanushri Kumar join the Monitor Inclusive Markets Team

Monitor Inclusive Markets team has two new faces since our last newsletter. Nidhi Hegde will be working on a Monitoring & Evaluation project to measure the unintended consequences of low income housing.

Tanushri Kumar will be part of the team working to increase the supply of affordable housing.

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MONITOR IN THE NEWS

Exclude low cost housing from service tax

The Hindu Business Line, April 11, 2010

Pradeep Prabhala, from the Monitor Inclusive Markets team puts forth the view that if service tax is imposed, a section of the population which could previously stretch its budget and afford to buy a house will find it difficult to do so.

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Stretching the Fabric of MFI Networks

The Development Finance Link, Jan 4 – March 6, 2010

Nishant Lalwani and Mike Kubzansky, in their paper on Microfinance Institutions (MFIs) say that MFIs have realized considerable success in India by providing credit services to the poor in order to encourage them to pull themselves out of poverty. The growth of MFIs has drawn the attention of other organizations looking to provide goods and services to members of the "B60," (the bottom 60% of the income pyramid). There have been initiatives to use MFI networks to distribute non-financial products and services. Few have been successful, and most have stopped short of scale.

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FEATURE

Housing Finance: The Next Big Opportunity

Ramesh Chavda is 30 years old, married and has a three year old son. He works in a textile mill on the outskirts of Ahmedabad and earns Rs. 8,000 a month and gets paid in cash. Ramesh has been looking to buy a house since 2007 and in October 2009 he finally found a project, in the suburbs of Ahmedabad, where flats were being sold for Rs. 3.5 lakh. His dream of owning a house was finally fulfilled when he was able to get a loan from a housing finance company for 75% of the value of the flat to fund the apartment.

Although the residential real estate market has seen a boom in India over the last decade, individuals like Ramesh have found it difficult to participate in this market. They currently live in slums and low income neighborhoods due to a lack of quality, affordable housing options. However, many of them aspire to live in and *can afford* to buy houses between 250–400 square feet in the suburbs at current market prices. Our estimates suggest that urban low income housing market (homes costing between Rs. 3–9 Lakhs catering to consumers earning Rs 7,000-20,000 per month) in India is 20 million houses. Over the last three years, the economic downturn has resulted in an increased focus on this market both from large real estate developers and at scale players, such as entrepreneurs and large corporations, and the supply of low income housing is now reaching a possible inflection point.

While the supply of housing in this segment is improving, the **BIG** challenge is home financing for this income segment as a majority of these customers need a housing loan. There is a huge untapped opportunity to provide housing finance to these customers (especially those in the informal sector), who are practically unserved by existing financial institutions as they are perceived to be “high risk”. This segment represents a large commercially viable business opportunity, and households in our target income segment (Rs 7–20K) alone represent a potential market of over Rs. 1,100,000 Crore (\$ 250 billion).

The real challenge lies in designing and executing a model to serve the low income informal sector. Because these customers lack documentary evidence of their incomes, alternate methods of credit assessment, such as on-site employment verification, creditor / supplier reference, etc., are required to understand real versus perceived risk. **There is a need for an alternate business model to serve lower income segments, and because there are very few players in this space — identifying the ideal business model solution will require time and testing.**

To address this, **Monitor has developed an indicative model for a housing finance company focusing on the low income sector.** The inputs and assumptions are drawn from actual branch and organization level economics of existing housing finance companies. **Modeling the economics of the low income housing finance company shows a financial performance comparable to that of existing organizations serving higher income groups, and highlights a significant opportunity to build a robust and profitable business.**

As supply of low income homes increases rapidly, there is a critical need for new players to meet existing customer demand for finance. The vast size of this market and the relative lack of competition make this an extremely attractive business opportunity. Finally, low income housing finance for the informal sector provides an opportunity to create immense social impact by helping consumers such as slum dwellers secure their own property, and enabling them to climb the ladder out of poverty.

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Kerala based, Muthoot Pappachan Group is all set to become the latest player to foray into the housing finance business in the country by setting up a separate subsidiary, which will primarily target the affordable housing segment and aim to disburse small ticket loans upto Rs. 6 lakhs. For more details visit www.muthoot.com

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Rockefeller Foundation's Impact Investing Initiative

The Rockefeller Foundation

A global philanthropic organization based in New York City, the Rockefeller Foundation supports work that expands opportunity and strengthens resilience in the face of social, economic, health and environmental challenges. These efforts affirm the organization's pioneering mission since 1913 to "promote the well-being" of humanity. Foundation initiatives focus on strengthening food security in Sub-Saharan Africa, protecting economic security of American workers, promoting access to affordable and high-quality health systems in developing countries, and creating strategies and services that help vulnerable communities cope with the impacts of climate change.

The Rockefeller Foundation realizes that there is not enough charitable capital to solve the world's social and environmental problems. In response to this, the Foundation launched its *Harnessing the Power of Impact Investing* initiative, as a complement to charity and government, in an effort to bring social and environmental solutions to scale. Impact investments are investments that seek to solve social and environmental problems while also generating a profit. The Foundation's Impact Investing initiative aims to catalyze the leadership that this emerging industry needs at this crucial stage in its development. Specifically, the initiative is working in four primary areas:

- **Incubating Platforms for Collective Action.** The impact investing industry is currently inefficient, with duplication in some areas and gaps in others, as innovation occurs through uncoordinated activity responding to investor interest. Developing effective mechanisms for disseminating standards, sharing information, and collaborating on deals will be crucial. In response, the foundation helped to launch the Global Impact Investing Network (GIIN), an independent nonprofit organization that provides the vehicle through which leading impact investors and intermediaries around the world can launch initiatives, such as an independent standards setting body, and undertake advocacy and research.
- **Supporting the Development of Intermediation Vehicles.** The history of microfinance and U.S. low-income housing development investments, as well as the evolution of mainstream capital markets, demonstrates the centrality of intermediation capabilities in unlocking investment flows. The Rockefeller Foundation believes that substantial latent investment capital will flow once intermediation develops to help place it, so the Foundation (1) supports investment vehicles that channel funds to companies and organizations operating in sectors related to other Rockefeller Foundation issue areas; (2) seeds a new cadre of scaled intermediaries by supporting proven intermediaries to achieve scale and fostering the entrance of new intermediaries into impact investment; and (3) demonstrates new approaches to combining grant funding, concessionary capital, and market-rate capital within a single investment or fund.
- **Building Industry Infrastructure.** This component supports efforts to develop infrastructure that enable broader and more effective participation in the impact investing industry, such as the launch of an independent standards-setting body to measure and monitor the social impact of investments.
- **Undertaking Research and Advocacy.** Work in this category supports efforts to understand the nascent impact investing industry, to articulate the case for its growth and development, and to raise the awareness of policymakers, investors and the general public about the industry.

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Janaadhar Launches Affordable Housing

Business Standard, April 15, 2010

<http://www.business-standard.com/india/storypage.php?autono=391311>

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The Hindu Business Line, April 11, 2010

(Opinion piece by Pradeep Prabhala, Monitor Inclusive Markets)

<http://www.blonnet.com/iw/2010/04/11/stories/2010041151401500.htm>

The Development Finance Link, January 4 – March 6, 2010

<http://www.mim.monitor.com/articles.html>

(Paper on Microfinance Institutions by Nishant Lalwani and Michael Kubzansky, Monitor Inclusive Markets)

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Nidhi Hegde and Tanushri Kumar Join the Monitor Inclusive Markets India Team

MIM continues to expand its team with Nidhi Hegde joining us in February and Tanushri Kumar joining us in April.

Nidhi is currently working on a Monitoring & Evaluation project to study the 'unintended' consequences, both positive and negative, on customers of the model of low income housing promoted by Monitor.

Prior to joining Monitor, Nidhi worked as a Product Manager with Ujjivan, a microfinance organization based out of Bangalore. At Ujjivan, she worked on a multi-intervention program targeting the urban ultra poor to enable them to break out of the cycle of extreme poverty. Before that, she spent two years with the Risk Advisory Services division at Ernst & Young in New York where she primarily worked with the derivatives valuation group.

Nidhi has a B.S. in Commerce in Finance and Marketing from the McIntire School of Business at the University of Virginia.

Tanushri is working to increase the supply of affordable housing in India. She will also be actively involved in MIM's efforts in the area of architectural designs for low-income housing development.

Prior to joining Monitor, Tanushri worked as an Associate Planner at Alchemy Urban Systems, a consulting firm in Bangalore. There, she worked on regional economic growth plans and an affordable housing development project in Ahmedabad. She also worked as a Program Coordinator for the Clinton Foundation's Climate Initiative in Bangalore, focusing on growing the market for green building products in India. Prior to this, she worked in economic development, land use, and sustainability for three years with the New York Industrial Retention Network, an economic development organization in New York City.

Tanushri has a M.R.P in City and Regional Planning from Cornell University and B.A. from Williams College, USA.

We are still recruiting for a few key positions in Monitor Inclusive Markets, if you are interested please get in touch with Naina Batra (naina_batra@monitor.com)

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