

Shift from Urban to Rural - Pros & Cons

by

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Introduction:

Even as far as 30 years ago a UN expert committee had stated that the way to decongest urban concentration was by reverse migration of people from urban to rural centers; that could be possible only through long term planning and infrastructure development which will drive the population towards the less congested rural areas, where land and cost of living is less expensive and the air, the living conditions and the hygiene are healthier. Also finding a house for rent at an affordable rate is becoming increasingly difficult in the booming metropolis with real-estate brokers ruling the roost and imposing their terms. Full-time brokerage agencies have gained monopoly over part-time brokers in the city and its outskirts which have witnessed several Information Technology companies, industries and auto giants setting up their facilities for the last few years.

Housing Demand estimation

Research says that there is an increased demand for permanent, non-slum houses across the country, including urban and rural demand. Increasing household demand / formation is driven primarily by the growth in population, urbanisation and increased income (refer tables 7, 8 and 9) through an increase in housing stock and area of stock. The total stock of housing in 2007 is estimated at 129.4 million units. This is expected to grow at a CAGR¹ of 3.37 per cent till 2012, adding, on an average, 4.6 million units annually till 2011. The current stock represents 86.08 billion sq ft Floor Space Area (FSA)². On an average, the addition to FSA is estimated to be 4.6 billion sq ft till 2011, growing at a CAGR of 4.75 per cent over next 5 years. India's property industry has been growing at an

¹ CAGR- Cumulative Annual Growth Rate

² FSA- Floor Space Area

average of 14% annually and is currently worth more than \$14 billion. Over the next 10 years, it is expected to reach \$102 billion driven by a demand for malls, premium housing and multiplexes.

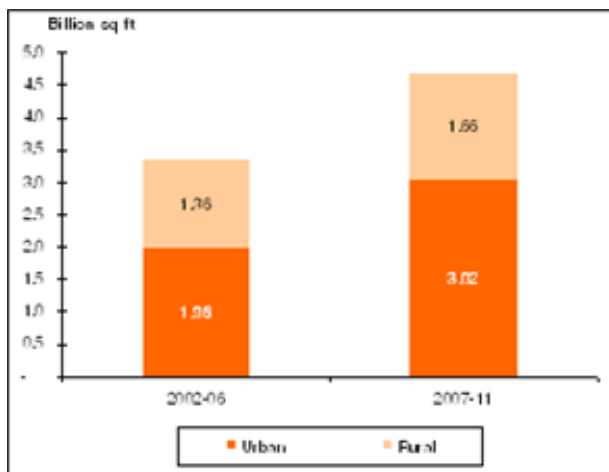
Housing demand forecast

Table 1

	2007	2011	Growth
Estimated housing stock (million units)	129.4	152.75	3.37%
Estimated housing stock (billion sq ft)	86.08	109.46	4.75%

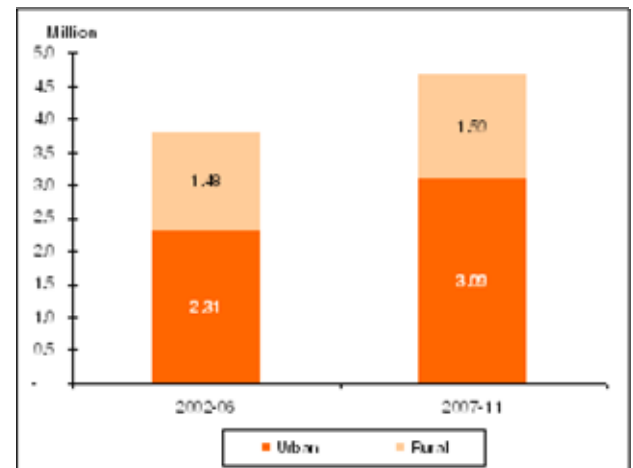
Source: CRISIL Research 2006

Average annual sq ft addition - All India Figure 1



Source: CRISIL Research 2006

Average annual units addition - All India Figure 2



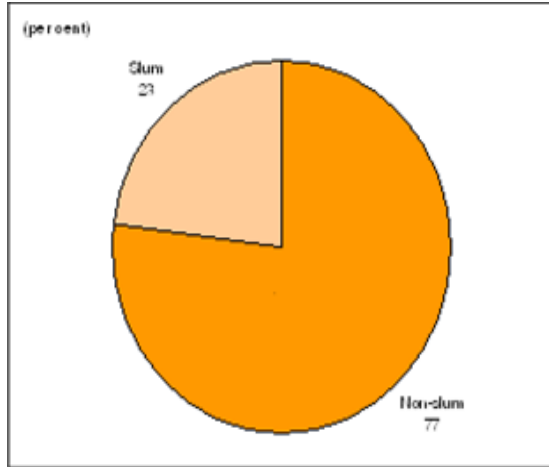
Source: CRISIL Research 2006

The estimated annual additions in urban areas are expected to grow at 9 per cent from 1.96 billion sq ft to around 3 billion sq ft, primarily reflecting increased urbanisation. Corresponding annual additions in units will grow at 6 per cent to reach 3.09 million units in 2007-11 from 2.31 million units in 2002-06. Conversely, the estimated annual additions in rural areas have grown at 4 per cent from 1.36 billion sq ft in 2002-06 to 1.66 billion sq ft. Corresponding annual additions in units in rural areas are estimated to grow at 1 per cent to 1.59 million in 2007-11 from 1.48 million in 2002-06. For the perspective of this report, a house may be defined as a building or part of a building used or recognised as a separate unit, because of having a separate main entrance from the road or common courtyard or staircase, etc. and used for residential purposes. For the purpose of demand estimation,

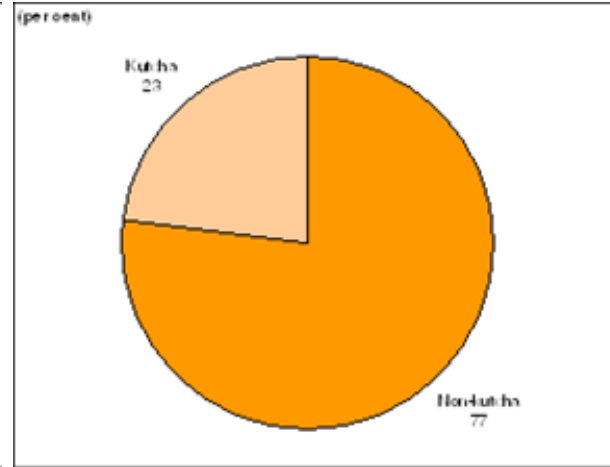
pucca non-slum houses in urban areas are been considered (refer table 7, 8 and 9), both permanent and semi-permanent houses were considered for this purpose. According to Census 2001, slums account for 23.1 per cent of total urban population of cities reporting slum figures. In rural areas, kutcha accounts for a similar 23.1 per cent of total rural houses.

Urban - Household composition 2001 Figure 3

Rural - Household composition 2001 Figure 4



Source: CRISIL Research 2006



Source: CRISIL Research 2006

Drivers of Demand in Housing

The housing demand is a product of three different variables. First and foremost is the primary need that is driven by increasing population. Secondly, economic growth and consequent urban migration have caused changes in preferences towards more nuclear families, causing a perceptible lowering of the household size. Finally, increasing affordability has driven households to invest in larger houses, thereby increasing area requirements as they shift into the higher income class. The table below summarises the independent (all other things remaining constant) impact of each of the demand driver on the overall housing demand.

Demand drivers and impact on housing demand Table 2

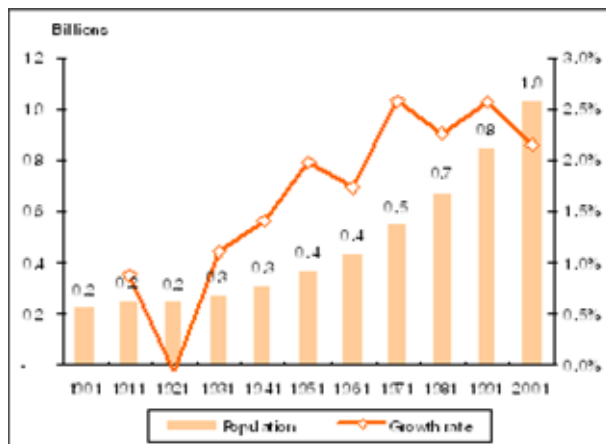
Demand driver	Units demand	FSA demand
Population growth	▲	▲
Urbanisation	▲	▲
Nuclearisation	▲	▲
Affordability	▲	▲

Source: CRISIL Research 2006

A) Increasing population

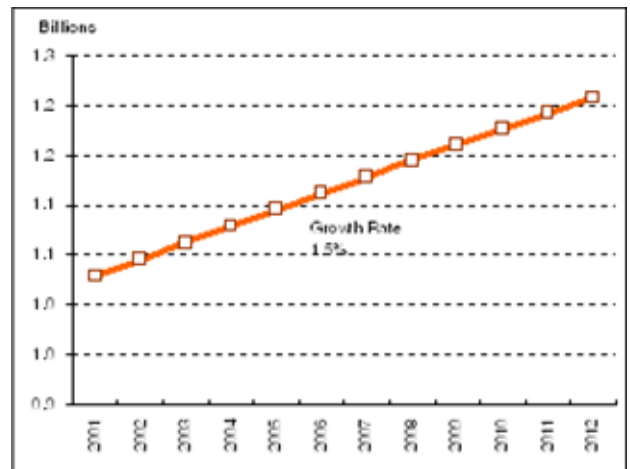
Currently, India is home for more than 1 billion people. This represented around 191 million households in 2001. India's population growth has been 2.3 per cent in the last decade. The growth rate has declined in the last couple of decades. The population growth is expected to slow further to 1.5 per cent in the next decade.

India - Population growth Figure 5



Source: Census 2001

Forecast of population growth in the Next Decade Figure 6



Source: census 2001

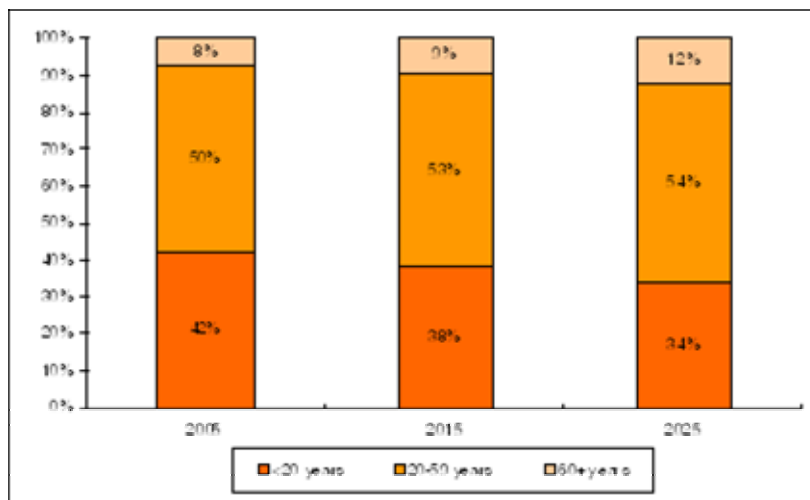
Population growth has a direct bearing on the requirement for housing units and, through this, on Floor Space Area (FSA) requirements. Further, in the current scenario, population growth is actually occurring in the younger age brackets. Research estimates this to translate into a tremendous increase in working population, thereby translating into greater demand for housing. Further details on population are given in table 4.

B) Urbanisation

The dynamics of urban population growth within the overall population growth is a little different. The share of urban population has increased steadily in the past to around 27 per cent of total. In the past, urban population has grown at 2.77 per cent, a little higher than the overall population growth of 2.3 per cent. Going forward, urbanisation is expected to accelerate further. This is expected to translate into urban population growth of 2.27 per cent till the year 2011 as compared with overall population growth of 1.5 per cent. This difference in growth rates implies that the gap between the urban and rural population will narrow in future.

Population - Age demographic trends

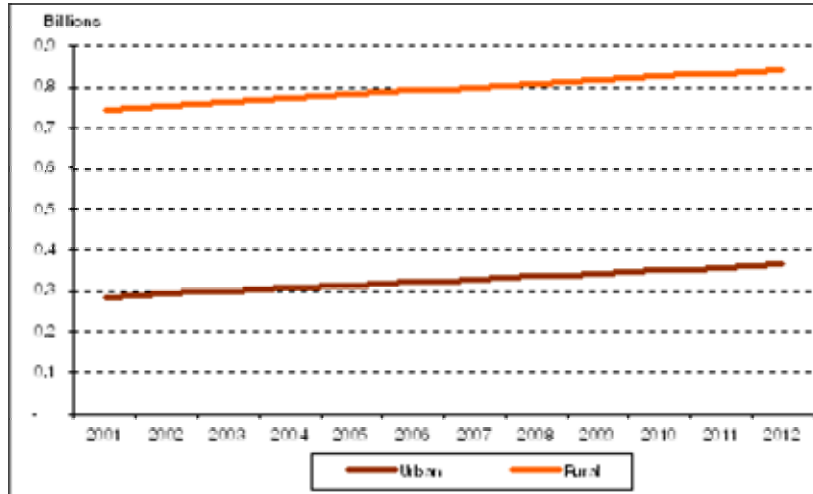
Figure 7



Source: CRISIL Research 2006

Urbanisation has twin impact on housing demand. On the one hand, it reduces the area per household, and on the other, there is an increasing need for more nuclear families, leading to the formation of more number of households. Further details regarding urbanisation are given in Table 5.

Urban population expected to grow faster than rural Figure 8



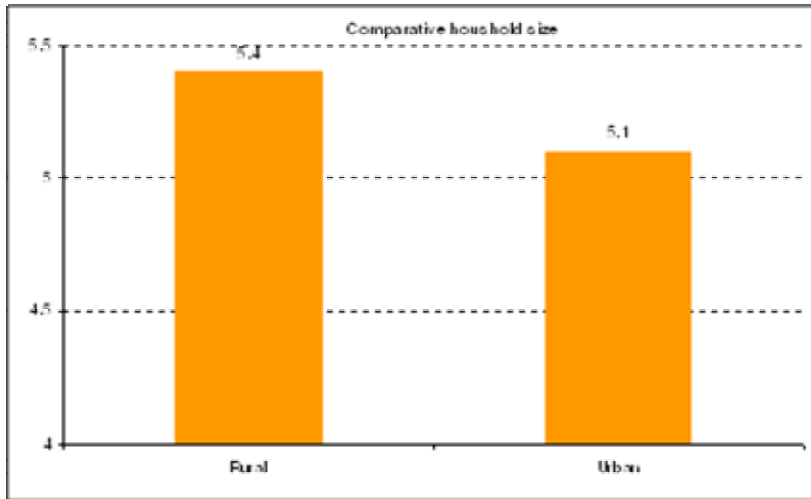
Source: CRISIL Research 2006

C) Nuclearisation

Nuclearisation refers to the formation of nuclear families from joint families. Nuclearisation is primarily driven by employment-related migration and the changing social structure could also be a factor. This migration is predominantly to urban areas. Nuclearisation, like urbanisation, also has twin impact. It reduces the area per household, but increases overall household formation, thereby increasing the demand for housing units. The fact that urban house prices are higher also leads to buying smaller areas in comparable income categories.

Urban household size is lower than rural

Figure 9

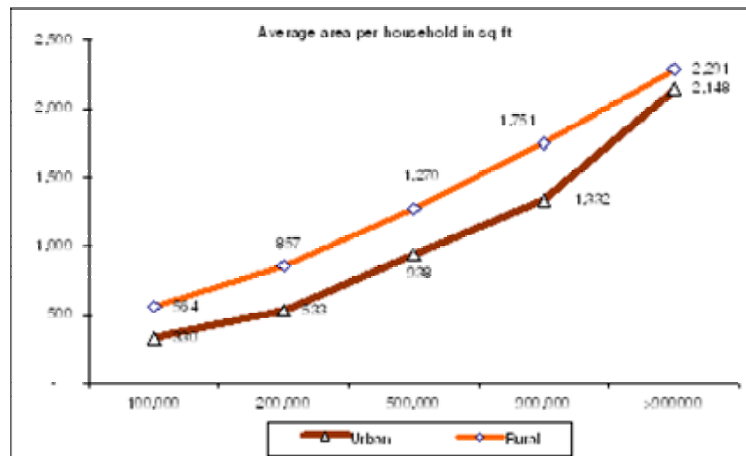


Source: Census 2001

Hence, the difference in rural and urban areas per household has reduced at higher incomes as affordability is higher. The table showing average size of households across India is depicted in table 6.

Estimated area per household urban and rural - 2001

Figure 10



Source: CRISIL Research 2006

D) Affordability

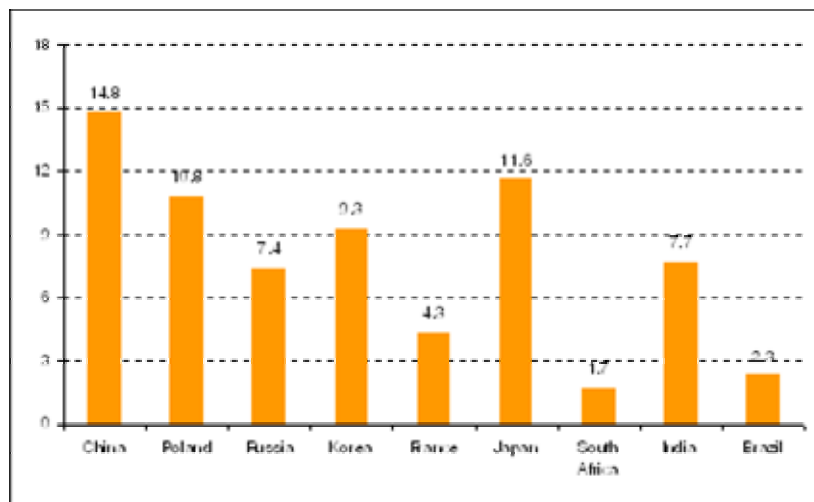
There has been a steady movement of households into higher income categories. The movement is more pronounced in the high-income categories. Urban households with incomes above Rs 500,000 are further expected to grow by 12 per cent in the next 5 years on an increased base. Rural households, in the same income class, are expected to grow by 7 per cent. The growth rate, though comparatively lower than the past 5-year average, reflects an adjustment of a higher base in higher incomes. Also when looking at the occupancy status of housing in both urban and rural areas, the numbers tell that while in the rural areas predominantly the houses are built for own occupancy, in the urban areas almost 40-50% of the houses are used for rentals. This also supports the view we had given earlier (refer tables 10 and 11).

Price sustainability

Demand for housing is influenced by house prices. In the last 2 years, house prices have witnessed tremendous growth. Developers typically indicate the IT boom as the primary reason for the increase in house prices. Analysis indicates that prices have skyrocketed beyond the affordability of high-income earning IT population. According to World Bank, the affordability ratio for India was 7.7 in 2005. The affordability ratio is defined as the ratio of median house prices to median incomes. Typically, an area is said to be affordable if the affordability ratio is less than 3, moderately unaffordable if the ratio is between 3 and 4, and severely unaffordable if the ratio is greater than 4. Hence, as per World Bank statistics, Indian housing prices should be severely unaffordable.

Affordability ratio - Key countries 2005

Figure 11



Source: World Bank 2005

However, according our calculations, the benchmark affordability ratio for India may be higher than the global benchmark of 3. Beneficial tax policies and lower interest rates in the recent past may have boosted the benchmark affordability ratio. It has been observed that across various industries that sustainability of high prices is dependant on the staying power of suppliers. In the recent past, developers have augmented their staying power. Although overall medium term expectations indicate a decline in prices, the extent and rate of decline will be difficult to determine.

Housing to lead real estate construction

Merrill Lynch forecasts that India's real estate sector will grow from \$12 billion in 2005 to \$90 billion in 2015. The real estate construction sector has been defined as residential and commercial construction. Commercial construction is further divided into office space construction, hotels, hospitals, and retail construction from various studies and reports.. Over the next 5 years, real estate investment in India is expected to be twice as much as that made in the previous 5 years. Investments in real estate will be driven primarily by housing, which is expected to account for nearly 90 per cent of the total real estate sector. Investments in commercial construction are expected to grow faster than

investments in housing, mainly due to heavy increase in office space demand and hence construction, driven by information technology/IT-enabled services (IT/ITES). ‘Housing’ has backward linkages with 100 other dependent industries such as cement, steel, sanitary ware, tiles and so on. Any slowdown in housing would, therefore, have a cascading effect on the dependent industries comments Mr Anand Gupta, Chairman, Builders’ Association of India, Mumbai Centre. As can be seen from the following table, over the next 5 years (2006-07 to 2010-11), real estate investments are expected to grow to Rs 18,517 billion from Rs 10,218 billion invested over the last 5 years (2001-02 to 2005-06).

Total construction investments

Table 3

(Rs billion)	2001-02 to 2005-06	2006-07 to 2010-11	Implicit TAGR ³ (per cent)
Real estate	10,218	18,517	12.6
Housing	9,810	17,338	12.1
Commercial real estate	408	1,179	23.6

Source: CRISIL Research

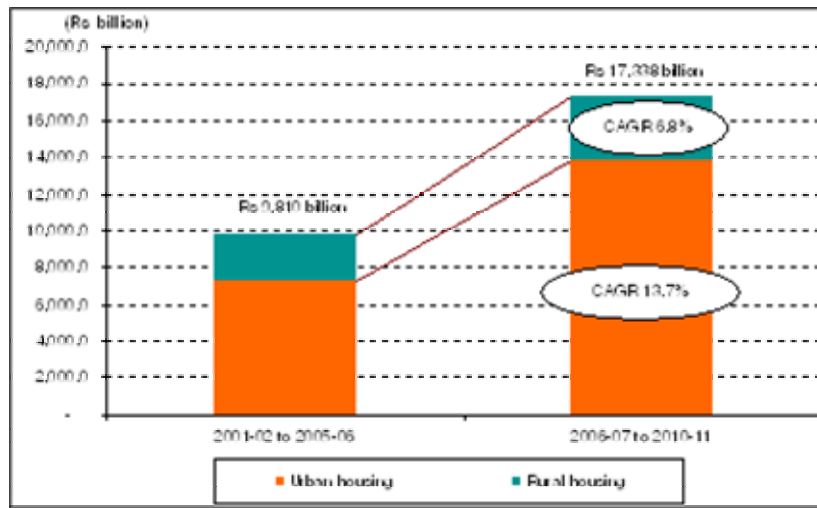
Housing investments to be driven by urban housing

Over the next 5 years, housing investments are expected to grow to Rs 17,338 billion as compared with Rs 9,810 billion invested in the previous 5 years. As can be seen from the following graph, housing investments are expected to be driven by urban housing investments.

The growth in disposable incomes, demographic changes (such as a growing number of working women who spend more, the growing number of nuclear families, higher income levels within the urban population), the change in perception of branded products, growth in retail malls, the entry of international players, and the availability of cheap finance will drive growth in the organised retail space. Over the next 5 years, an investment of Rs. 176 billion in organised retail construction is being expected.

³ TAGR- Trend Annual Growth Rate

Housing investments to be driven by urban housing Figure 12



Source: CRISIL Research

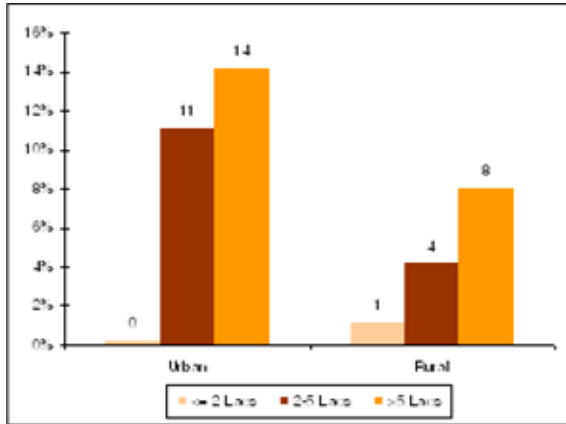
Huge unmet demand for houses, especially for low and middle-income group

Research reveals that between FY07 and FY10, there will be demand for over 2 lakh new houses [221 million square feet (msf)⁴] in the city. Around 55 per cent of this demand will come from households in the lower and middle-income group and the remaining from the high-income group. Although there is a lot of supply (24 msf - 30,000 houses) coming up in the market over the next 2-3 years, most of these will be in the high-end segment, and this supply will be insufficient to meet the demand from this segment. The demand in this segment is particularly driven by IT/ITES (including NRIs).

⁴ msf- million square feet

Increase in incomes (urban and rural) 2002-06

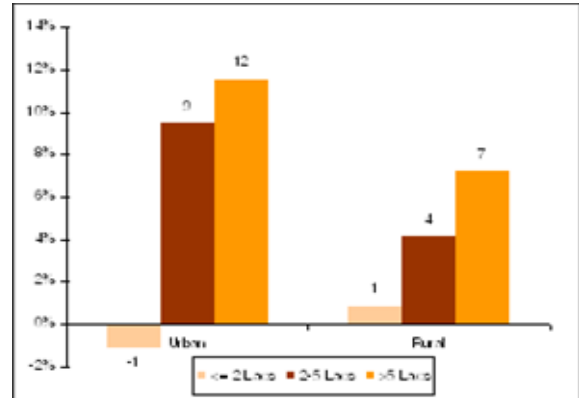
Figure 13



Source: CRISIL Research

Increase in incomes (urban and rural) 2007-11

Figure 14



Source: CRISIL Research

Conclusion:

Despite booming property prices across India, housing trends have previously been difficult to quantify without a credible methodology. Lack of proper research and benchmarks has resulted in huge price variations. A research agency in Mumbai has devised a Real Estate Sensitivity Index (RESSEX)⁵ to track property prices and the factors affecting them with plans to cover the rest of India within the next twelve months. RESSEX is designed by taking into consideration various factors like interest rate changes and Government policies to arrive at the final price of a property. India's first property price index will be updated quarterly and factor price, availability and supply.

⁵ RESSEX - Real Estate Sensitivity Index

References:

- 1) [Http://economywatch.com](http://economywatch.com)
- 2) www.in2perspective.com
- 3) www.mumbaipropertyexchange.com
- 4) www.inrnews.com
- 5) www.internationalmonetaryfund.com
- 6) www.worldbank.org
- 7) www.censusindia.net
- 8) www.crisil.com
- 9) “Consumer, not investor, is building housing boom”, The Hindu Business Line, Sunday, July 22, 2007.

Composition of urban population growth in India**Table 4**

Category	1961-71	1971-81	1981-91	1991-2001
Urban population	109.11	159.46	217.61	285.31
Urban population growth (in million)	30.18	49.45	56.45	67.70
Composition (in million)				
(I) Natural increase	19.68	20.40	33.87	40.68
(ii) Net migration	5.91	19.73	12.76	9.17
(iii) Reclassification	4.59	9.32	9.82	17.84

Contribution to urbanisation (Percentage)

Category	1961-71	1971-81	1981-91	1991-2001
(I) Natural increase	65.2	41.3	60	60.1
(ii) Net migration	19.6	39.9	22.6	13.5
(iii) Reclassification	15.2	18.8	17.4	26.4

Category		1961-71	1971-81	1981-91	1991-2001
(I) Natural increase	Decadal	24.93	18.70	21.24	18.70
	CAGR	2.25	1.73	1.94	1.73
(ii) Net migration	Decadal	7.49	18.08	8.00	4.21
	CAGR	0.72	1.68	0.77	0.41
(iii) Reclassification	Decadal	5.81	8.54	6.16	8.20
	CAGR	0.57	0.82	0.60	0.79

Source: India's Urban Sector Profile, National Institute of Urban Affairs and Govt of India

Trend of urbanisation in India (1901-2001)**Table 5**

Census year	Total population	Urban population	Percentage of urban population to total population	Decadal urban growth rate	Annual exponential growth rate	Annual gain in percentage of urban population	Annual rate of gain in percentage of urban population	Decadal CAGR (urban areas) %	All India decadal CAGR %
1901	238,396,327	25,854,967	10.85	n.a.	n.a.	n.a.	n.a.		
1911	252,093,390	25,948,431	10.29	0.36	0.04	-0.06	-0.51	0.0	0.6
1921	251,321,213	28,091,299	11.18	8.26	0.8	0.09	0.86	0.8	0.0
1931	278,977,238	33,462,539	11.99	19.12	1.77	0.08	0.73	1.8	1.0
1941	318,660,580	44,162,191	13.86	31.98	2.81	0.19	1.55	2.8	1.3
1951	361,088,090	62,443,709	17.29	41.4	3.52	0.34	2.48	3.5	1.3
1961	439,234,771	78,936,603	17.97	26.41	2.37	0.07	0.39	2.4	2.0
1971	548,159,652	109,113,977	19.91	38.23	3.29	0.19	1.08	3.3	2.2
1981	683,329,097	159,462,547	23.34	46.14	3.87	0.34	1.72	3.9	2.2
1991	846,302,688	217,611,012	25.71	36.47	3.16	0.24	1.02	3.2	2.2
2001	1,028,737,436	286,119,689	27.80	31.11	-	-	-	2.7	0.0

Source: Urban Statistics, Hand Book 2000, National Institute of Urban Affairs & Agricultural Research, Data Book 2004, Census 2001

**Average size of households:
2001**

Table 6

Area name	Rural	Urban	Total
Bihar	6.0	6.5	6.0
Uttar Pradesh	6.5	6.4	6.5
Jammu & Kashmir	6.5	6.3	6.5
Lakshadweep	5.9	6.2	6.1
Rajasthan	6.1	5.8	6.1
Manipur	5.8	5.6	5.8
Jharkhand	5.6	5.6	5.6
Madhya Pradesh	5.6	5.5	5.5
Punjab	5.8	5.3	5.6
Nagaland	6.3	5.3	6.1
Meghalaya	5.6	5.3	5.5
Uttaranchal	5.3	5.2	5.3
Haryana	5.9	5.2	5.7
Delhi	5.3	5.1	5.1
Chhattisgarh	5.1	5.1	5.1
Gujarat	5.3	5.0	5.2
Mizoram	5.1	4.9	5.0
West Bengal	5.1	4.9	5.1
Orissa	4.7	4.9	4.8
Maharashtra	5.0	4.9	4.9
Karnataka	5.2	4.9	5.1
Assam	5.5	4.8	5.4
Kerala	4.7	4.8	4.7
Andhra Pradesh	4.4	4.7	4.5
Sikkim	4.8	4.6	4.7
Arunachal Pradesh	5.2	4.6	5.1
Daman & Diu	4.3	4.6	4.4
Goa	4.7	4.5	4.6
Pondicherry	4.5	4.5	4.5
Chandigarh	4.1	4.4	4.4
Tripura	4.9	4.4	4.8
Andaman & Nicobar Islands	4.6	4.4	4.6
Dadra & Nagar Haveli	5.0	4.3	4.8
Tamil Nadu	4.2	4.3	4.3
Himachal Pradesh	5.1	4.2	5.0
India	5.4	5.1	5.3

Source: Census 2001

Total population, slum population and their percentage in municipal corporations with population above one million - 2001

Table 7

S.No.	Name of million plus municipal corporations	State/Union territory*	Total population	Total slum population	Percentage of slum population to total population
1	Greater Mumbai	Maharashtra	11,978,450	6,475,440	54.1
2	Delhi	Delhi	9,879,172	1,851,231	18.7
3	Kolkata	West Bengal	4,572,876	1,485,309	32.5
4	Chennai	Tamil Nadu	4,343,645	819,873	18.9
5	Bangalore	Karnataka	4,301,326	430,501	10.0
6	Hyderabad	Andhra Pradesh	3,637,483	626,849	17.2
7	Ahmedabad	Gujarat	3,520,085	473,662	13.5
8	Surat	Gujarat	2,433,835	508,485	20.9
9	Kanpur	Uttar Pradesh	2,551,337	367,980	14.4
10	Pune	Maharashtra	2,538,473	492,179	19.4
11	Jaipur	Rajasthan	2,322,575	368,570	15.9
12	Lucknow	Uttar Pradesh	2,185,927	179,176	8.2
13	Nagpur	Maharashtra	2,052,066	737,219	35.9
14	Indore	Madhya Pradesh	1,474,968	260,975	17.7
15	Bhopal	Madhya Pradesh	1,437,354	125,720	8.7
16	Ludhiana	Punjab	1,398,467	314,904	22.5
17	Patna	Bihar	1,366,444	3,592	0.3
18	Vadodara	Gujarat	1,306,227	186,020	14.2
19	Agra	Uttar Pradesh	1,275,134	121,761	9.5
20	Thane	Maharashtra	1,262,551	351,065	27.8
21	Kalyan-Dombivli	Maharashtra	1,193,512	34,860	2.9
22	Varanasi	Uttar Pradesh	1,091,918	137,977	12.6
23	Nashik	Maharashtra	1,077,236	138,797	12.9
24	Meerut	Uttar Pradesh	1,068,772	471,581	44.1
25	Faridabad	Haryana	1,055,938	490,981	46.5
26	Pimpri Chinchwad	Maharashtra	1,012,472	123,957	12.2
27	Haora	West Bengal	1,007,532	118,286	11.7
Total			73,345,775	17,696,950	24.1

Source: Census 2001

Mix of housing stock in India - Rural **Table 8**

Figures million	in	Total	Pucca	Semi-pucca	Kutcha
1981		86.1	14.38	27.98	43.74
1991		107.9	28.59	37.33	41.97
2001		177.5	68.18	56.10	53.26

Source: Census report

Mix of housing stock in India – Urban **Table 9**

Figures million	in	Total	Pucca	Semi-pucca	Kutcha
1981		27.6	15.9	7.1	4.6
1991		39.1	26.1	9.0	4.0
2001		71.6	53.8	12.4	5.3

Source: Census report

Trends in housing by occupancy status **Table 10**

Year	Urban			Rural		
	Owned	Hired	Others	Owned	Hired	Others
1981	44.6	50.8	4.6	91.2	3.4	5.4
1991	63.0	34.0	3.0	95.0	3.0	2.0
2001	66.8	28.5	4.7	94.4	3.6	2.1

Source: Census 2001, CRISIL Research

State-wise percentage distribution of houses by occupancy status

Table 11

Area name	Urban			Rural			Total		
	Owned	Rented	Others	Owned	Rented	Others	Owned	Rented	Others
Andaman & Nicobar Islands	43.1	41.8	15.1	55.0	12.9	32.0	51.2	22.2	26.6
Andhra Pradesh	56.0	41.1	2.9	90.4	7.9	1.7	81.9	16.1	2.0
Arunachal Pradesh	24.9	31.5	43.6	75.3	8.4	16.3	63.9	13.6	22.5
Assam	55.5	36.6	7.9	90.0	2.5	7.5	85.0	7.4	7.6
Bihar	77.1	18.7	4.2	98.6	0.7	0.7	96.6	2.4	1.0
Chandigarh	47.2	40.4	12.4	33.1	64.7	2.2	45.7	42.9	11.3
Chhattisgarh	64.2	28.6	7.3	94.5	2.8	2.7	88.7	7.7	3.5
Dadra & Nagar Haveli	37.3	61.1	1.5	79.4	18.1	2.5	68.7	29.1	2.2
Daman & Diu	67.2	28.2	4.6	50.9	42.8	6.3	56.7	37.6	5.7
Delhi	66.3	26.1	7.6	77.9	18.6	3.5	67.1	25.6	7.3
Goa	67.6	28.5	3.9	86.9	9.8	3.3	77.3	19.1	3.6
Gujarat	73.2	22.8	4.1	92.7	5.5	1.8	85.1	12.2	2.7
Haryana	78.5	17.8	3.7	95.9	2.3	1.8	90.6	7.0	2.4
Himachal Pradesh	42.3	51.2	6.5	90.5	7.1	2.4	85.0	12.2	2.9
Jammu & Kashmir	82.9	13.6	3.6	97.1	1.3	1.6	93.5	4.4	2.1
Jharkhand	51.1	34.2	14.7	96.2	2.1	1.7	86.4	9.1	4.5
Karnataka	54.6	42.0	3.4	91.2	6.2	2.6	78.5	18.7	2.9
Kerala	87.5	10.2	2.3	94.3	3.3	2.4	92.6	5.0	2.3
Lakshadweep	74.9	23.6	1.5	84.3	14.1	1.6	80.3	18.1	1.6
Madhya Pradesh	69.3	24.7	5.9	95.6	2.3	2.1	88.9	8.0	3.1
Maharashtra	67.2	28.5	4.4	90.0	6.6	3.4	80.3	15.8	3.8
Manipur	90.1	8.6	1.3	95.0	4.0	1.0	93.8	5.2	1.0
Meghalaya	39.8	53.7	6.5	91.7	6.2	2.1	80.5	16.4	3.1
Mizoram	50.3	46.5	3.3	88.2	10.4	1.4	69.0	28.7	2.4
Nagaland	34.6	59.3	6.0	87.5	8.7	3.8	76.9	18.9	4.3
Orissa	53.5	33.2	13.4	95.5	2.3	2.2	89.7	6.6	3.7
Pondicherry	60.1	34.8	5.2	84.3	11.0	4.8	68.4	26.5	5.0
Punjab	77.2	18.8	4.1	95.5	2.5	2.0	89.1	8.2	2.7
Rajasthan	78.5	18.3	3.2	96.7	2.0	1.3	92.4	5.8	1.7
Sikkim	22.9	60.0	17.1	68.9	23.5	7.6	63.2	28.0	8.8
Tamil Nadu	58.5	38.4	3.0	91.3	6.7	2.0	77.7	19.9	2.4
Tripura	70.9	26.5	2.6	93.3	3.6	3.1	89.2	7.9	3.0
Uttar Pradesh	80.1	16.4	3.5	98.4	0.9	0.7	94.7	4.0	1.2
Uttaranchal	58.8	30.8	10.4	90.5	5.4	4.1	82.7	11.7	5.6
West Bengal	63.8	31.1	5.1	95.5	1.7	2.8	86.3	10.2	3.5
India	66.8	28.5	4.7	94.4	3.6	2.1	86.7	10.5	2.8

Source: Census 2001