



A home for the millions

Tata Housing has opened the doors to the low-cost housing market and is providing viable solutions for India's lower middle class

It has been four months, yet the young team at Tata Housing Development Company (Tata Housing) is still a little dazed by the success of its new venture — the Shubh Griha scheme (better known in the market as the Nano housing scheme). In just a few days after its launch, this low-income housing scheme was oversubscribed seven times, taking even its creators by surprise.

The Shubh Griha scheme is just one of several innovations that the Tata Housing has implemented over the last few years. The company which lay moribund for several years, from 1984 when it was established right up to 2005 when it underwent a complete management makeover under chairman RK Krishna Kumar, and managing director and chief executive officer Brotin Banerjee, has now made a practice of thriving on change.

For instance, in an industry that is infamous for its practices, Tata Housing's operations are built upon a unique real estate development strategy: an international standard for design with reputed international architects designing all its projects (even Shubh Griha), a customer-driven approach and a strong emphasis on green buildings. All of Tata Housing's projects are certified for Leadership in Energy and Environment Design in order to be as environmental-friendly as possible.

This strategy has resulted in Tata Housing winning prestigious awards for its projects: the best known of these are the Xylem Commercial IT Park in Bangalore, Raisina Residency in Gurgaon, and Aquila Heights, a residential complex in Bangalore.

After having established itself as a creator of premium real estate over the last couple of years, the company has now decided to reinvent itself by looking at the bottom of the pyramid for a new customer base. "In the real estate business, everyone scrambles for a piece of the premium pie, because that is where the money is. And yet the demand for housing is universal, part of the three basic necessities of life — *roti, kapada aur makaan* (food, clothing and housing). We decided to see whether it was possible to come up with a business model that could successfully address the affordable housing market," says Mr Banerjee, who joined the Tatas as a TAS trainee in 1998.

And just how big is the pie at the bottom of the pyramid? "Research showed us that there is an overall demand for 24.7 million houses in India, of these nine million are in urban or tier 1 cities," says Rajeeb Dash, senior marketing manager. With such a tremendously large potential customer base, Tata Housing decided to come up with a brand new business plan that could make money by providing low-cost housing. Tata Housing's Nano flats sell at a starting price of around Rs3.9 lakh, that is approximately about Rs1,400 per sq ft, a figure lower than even the cost of construction of most real estate projects. To sell at such a low price, the entire cost structure of real estate development had to be re-examined. "There were no precedents here. In fact, several developers still don't believe it is possible to make money in this market. We've been laughed at in some quarters," says Mr Banerjee.

A paradigm shift

The team found itself throwing all the old business paradigms out the window and inventing new methodologies. “We are developing land on a joint ownership basis with land owners, so that our capital is not blocked and costs remain low. We are exploring new low-cost construction technologies, such as prefabrication. Steel and cement are price-volatile commodities; we have locked in our vendors and suppliers on long-term contracts so that we get economies of scale,” says Mr Banerjee as he enumerates some of the aspects of the new business model.

Even the customer angle needed reinventing. A new housing finance option — micro finance — was considered to meet the needs of home buyers in the unorganised sector. For this, the company has tied up with Micro Housing Finance Corporation, in addition to the standard housing loan partners — State Bank of India, HDFC, etc.

Marketing and distribution costs were drastically reduced. While normal costs hover at 5 per cent of project costs, in the case of the Shubh Griha scheme, the marketing costs were capped at less than 2 per cent. “Most of the advertising was through press reports and advertisements at railway stations and bus depots. We relied heavily on word of mouth,” says Mr Banerjee. Distribution of forms was outsourced to other partners, including State Bank of India.

A positive response

The strategy was a runaway success. When the company announced the low-cost housing scheme of 1,000 flats at Boisar on the outskirts of Mumbai in May 2009, they printed and distributed about 5,000 application forms. But the demand for the forms was so large that over the next fortnight company managers found themselves reprinting the forms several more times. More than 7,000 customers queued up to pay the booking amount for the flats. There were more than 3.5 million hits on the company website with customers from all over the world writing blogs begging for flat allocation. Media from all over the world wrote about India’s homeless millions and the Tata solution. There were even enquiries whether Tata Housing could establish Nano flats in Korea and China. In the midst of the frenzy, Tata Housing managed to get the number of flats increased from 1,000 to 1,300 and allotted the flats by lottery.

What makes the Shubh Griha scheme unique is that as much as 35-40 per cent of the buyers are in the unorganised sector, people who hitherto had no access to formal housing funds. Another unusual aspect of the scheme is its customer-friendly design. “The flats have



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been designed specifically to suit the lifestyles of the target audience. For instance, the flats come with ready lofts for storage, large living rooms that can be converted into extra sleeping areas at night, toilets that are distanced from the kitchen, etc. All of this has been culled out of customer research,” says Mr Banerjee.

A green township

In spite of its low-pricing strategy, the Shubh Griha scheme is a low-risk proposition for the company because it is part of a unique package of services that Tata Housing calls a value township. For instance, the 65 acres of land at Boisar will be home to the low-range Nano flats, as well as a mid-range project called New Haven, and an upper range project yet to be announced. The New Haven project has just been kicked off with an offering of 1,300 flats at the Boisar township.

The township will be complete in all aspects — community centres, recreation facilities, schools, hospitals, etc. The green design incorporates features such as maximum natural ventilation, glazed windows, energy-saving compact fluorescent lights, solar public lighting, open and green landscapes, rain water harvesting, etc.

This value township is the new baby being developed and marketed by Tata Housing in several markets in India — Delhi, Bangalore, Pune, Indore and Ahmedabad, among others. The company is planning to develop about 11-12 million sq ft of affordable housing, along with another 11 million sq ft of premium real estate. By keeping one foot in the affordable property market and the other in the premium segment and maintaining a balanced portfolio, the company is allaying its risk. More important, the company strongly believes that this is a sustainable development model.

What Tata Housing and the Shubh Griha project have already accomplished is truly remarkable. By establishing the fact that low-cost housing can be an attractive business model, Tata Housing has not just opened up a new customer segment, it has made the dream of owning a *makaan* a strong possibility for millions of Indians. ●

Gayatri Kamath