

Section 2

INTERNATIONAL PRACTICES AND DOMESTIC EXPERIENCES

2.1 Background

2.1.1 Housing Starts as a Lead indicator: Housing Start indices are considered to be lead economic indicators because these give an idea regarding the level of activities in a number of sectors of the economy in immediate future and in this sense they are forward-looking. A high level of housing activity can trigger economic growth, cause interest rates to rise and may have inflationary impact. Similarly, decline in housing activity could slow down the economy, cause yields and interest rates to fall, dampen investments in linked sectors and push the real economy into recession. The current meltdown of the economy is being linked to the crisis emanating from the housing sector. The developments in the latter have direct causal effect on the real economic activities as also the financial sector, which amplifies macroeconomic shocks. Furthermore, these can become autonomous sources of macroeconomic and financial fluctuations. Because of the high outlays needed to start construction projects, an increase in housing starts is often taken as an indication of commitment of related investment in other sectors. It reflects an enhancement of business and consumer optimism. The housing starts figures provide insight into the upcoming demand for consumer durables in near future, since new house constructions/purchases are typically followed by large expenditures on a wide range of consumer products. Conversely, an economy that is growing rapidly is noted as having a high demand for housing and large number of housing starts.

2.1.2 Ripple effect of housing demand: The housing sector has powerful multiplier effects across the commodity and services markets that impact the overall growth performance of the economy. Changes in the rate of housing starts reflect demand for new dwelling units, impacting the outlook for construction industry. As new house/building constructions get started, the demand for construction materials goes up. Further, employment in the

construction activities rises immediately, causing a higher demand for a large number of consumption goods including durables, which eventually may cause the general price rise in the country. Once the houses are sold, these generate revenues in the hands of the house-builders and open a myriad of consumption opportunities for the buyer. Refrigerators, washing and drying machines, furniture, etc. are a few things that new house buyers would often spend their money on. The economic "ripple effect" in the Indian context has been noted to be substantial, especially when new houses are coming up at a rate higher than in the past. In a more specific sense, the housing starts data carry valuable clues for house-builders, producers and suppliers of construction materials, banks, lenders, and house furnishings companies, for their future decisions.

2.2 *International Practices*

2.2.1 Internationally, countries like Canada, United States, Japan, France, Australia, and New Zealand are compiling data related to building permits/housing starts on a regular basis. Most of these countries compile housing starts using housing permits data, collected either through census or sampling method. The practices followed in these countries are summarised below.

2.2.2 *Statistics Canada* publishes data on house permits on a monthly basis. The monthly *Building Permits Survey* of the Canadian municipalities collects data on the value of construction intentions in the non-residential sector; and the number of dwelling units authorized in the residential sector and their value. The Survey collects information also on the number of dwelling units demolished. It covers all the municipalities that issue permits. At present more than 2,350 Canadian municipalities, representing all provinces and territories are covered by the survey. Data sources and methodology are detailed in Annex-2.

2.2.3 Building permits data are widely used as a lead indicator for the construction industry in Canada; the issuance of a building permit is one of the first steps

in the construction process. Statistics on building permits are essential for the computation of capital expenditures in building construction, depreciation by components and estimation of net capital stock on quarterly and annual basis. The results of this Survey are used by Canada Mortgage and Housing Corporation (CMHC) as a reference base for conducting a monthly survey of housing starts and completions. There are, thus, a wide range of users – from economists in public and private production sectors and development planners to construction industry analysts and housing market analysts in Canada.

2.2.4 The United States Census Bureau compiles and publishes data on 'New Residential Construction' on a monthly basis, based on sample survey. The purpose of the survey is to provide statistics on the construction of new privately owned residential structures in the country. The data relate to new housing units intended for occupancy and maintenance by the occupants. These include single-family unit as well as multiple-family unit buildings but exclude hotels, motels, and group residential structures such as nursing houses and college dormitories. Also excluded are the publicly owned housing and manufactured mobile housing units. Units in structures built by private developers with partial public subsidies are all classified as private housing and hence included in the database.

2.2.5 Statistics on housing units authorized by building permits include those that are issued under local permit-issuing jurisdictions by a building or zoning permit agency. Statistics are based upon reports submitted by local building permit officials in response to a mail survey. Approximately 9,000 of the 20,000 permit issuing places in the United States are surveyed monthly, the remaining being surveyed annually. Estimates of Housing Units Authorized, but Not Started; Housing Starts; Housing Units under Construction; and Housing Completions are obtained from the Survey of Construction (SOC). SOC comprises two parts: (i) Survey of Use of Permits (SUP) which estimates the number of new construction in areas that require a building permit and

- (ii) Non-permit Survey (NP) estimating the amount of new constructions in areas that do not require a building permit. Data from both parts of the SOC are collected by Census field representatives. For SUP, they visit a sample of permit offices and select a sample of permits issued for new housing. These permits are then followed through to record the date of their starting and completion. From these sample surveys, related housing statistics are estimated. The detailed methodology is presented in Annex-3.
- 2.2.6 The Japanese Ministry of Land, Infrastructure and Transport announces Japan's total housing starts every month under official statistics of Japan. The Housing Starts figure gives insight into consumer activity in Japan, since new home purchases typically require a large investment for consumers.
- 2.2.7 In France, the National Institute of Statistics and Economic Studies, Directorate-General of the Ministry of the Economy, Finance, and Industry, publishes the information on house starts on monthly basis. The rate of growth in housing construction is released as percentage change over the preceding year.
- 2.2.8 Australian Bureau of Statistics publishes dwelling starts on quarterly basis. The number, which is officially called Construction of Dwellings, measures growth in the construction sector and reflects the overall health of the housing market. The headline number is the percentage change in Dwelling Starts from the previous month's figure.
- 2.2.9 Statistics New Zealand, a government department and New Zealand's national statistical office publishes data on building permits on monthly data. Building Permits or Building Consents, are issued when a building project is authorized for construction. Since Building Consents are the earliest signals of expanded housing supply, this is taken as a lead indicator by most actors in the housing market. The headline figure is the percentage change in new consents for house construction in the month.

2.3 *Explorations into the Existing Data on House Construction in India*

2.3.1 Considerable information on house construction is available from permit issuing authorities in India, as is the case of several other countries. The permit issuing authorities in India vary depending on the nature of settlement, as discussed below:

- Municipal Corporation
- Town Planning Authority
- Tahsildaar (Nagar Parishad / Palika)
- Gram Panchayat

2.3.2 The documents in the hand of the above-mentioned authorities, where the information related to construction statistics are noted may be mentioned as follows:

- Building Plan Register
- The individual files for the building permits that contain various documents like Project Proposal, Building Plan Approval, Commencement Certificate, Occupancy Certificate and Completion Certificate.

2.3.3 In view of the diversity of the practices and sources of the information, the Group examined the existing system and the data collected on construction related activities at various institutions like, National Buildings Organisation (NBO) - an organisation under the Ministry of Housing and Urban Poverty Alleviation- Government of India, DES-Government of Tamil Nadu, DES-Government of Delhi etc. The purpose was to analyse and assess the relevance and usability of the existing information for constructing a HSUI.

2.3.4 The NBO collects data on current housing and building construction activities in public and private sectors, prices of building materials, wage rates of labour, dates of issuance of building permits and that of completion certificates and Building Construction Cost Index based on the data from 63 major cities on annual basis with the help of the State Directorate of Economics and Statistics (DES).

2.3.5 National Building Organization has entrusted the responsibility of collecting the construction related statistics on a regular basis to the State DESs. The latter collect and compile information under the guidelines issued by the NBO. Houses are categorized by their plinth area such as Low Income Group (LIG), Middle Income Group (MIG) and High Income Group (HIG) and construction statistics is compiled for public and private sectors separately. Data on construction in public sector includes all projects of Public Undertakings costing Rupees 2.5 million and above. The data are collected annually from the divisional offices of the public organizations in a uniform format prescribed by NBO. Private sector constructions include all permissions (residential and non-residential) issued by the local bodies. All the Class I and II towns and 10 per cent of the Class III to VI towns selected at random are covered under this system.

2.3.6 The details provided by NBO, DES-Tamil Nadu (TN) and Delhi on existing information system related to new construction activities are placed in Annex-4. Besides providing details of existing database in Tamil Nadu, DES-TN also undertook a study and conducted a sample survey on total permits issued for new constructions in Chennai during 2004-05 to identify the start-up rates (the proportion of houses started to total building permits issued). The framework and findings of this quick study are as follows:

- The survey did not include non-residential constructions. Also, addition and alteration of constructions to the existing buildings were not covered. New constructions, taken up in an unauthorized manner, were also not covered in this survey.
- A fairly representative year 2004-05 is selected as the reference year for the study. As the construction permissions issued by local bodies are valid for three years, those not reporting any construction at the time of the survey can be taken to have lapsed. The names and addresses of the permission holders, numbering about 5792, who were sanctioned the Construction permissions during the reference year, were collected from the Municipal

Corporation. Individual permission holders were the respondents of this survey.

- Chennai Corporation has got 10 administrative zones. Variability was noticed in zone-wise distribution in the number of permissions issued. Consequently, a stratified random sampling method with proportionate allocation to the zones was adopted in the pilot survey. Two per cent of permission holders, numbering about 114 were randomly selected for detailed data collection. The questionnaires were canvassed to the permission holders or their household members.
- Out of 114 building permissions pursued, in 111 cases, house constructions have started while in 3 cases, this has not happened. Out of 111 cases where house construction had started, only 10 were observed to have not been completed till the date of the survey.

2.3.7 At the instance of TAG, a meeting of the municipal commissioners and officers from town planning departments/urban development authorities from some selected cities with members of the Group was held at NBO, New Delhi to deliberate on issues relating to the existing system of data collection on building permits and explore suitable mechanisms for collection, compilation and collation of data on building permits. The municipal commissioners/officers present in the meeting were requested to submit the data as per the Schedule-A and B, Annex-5. Schedule-B is devised in order to find out the differences in the nature of institutions and variations in the procedures for issuance of permits across the states and cities in the country. This annexure includes questionnaires pertaining to the critical issues on house construction linked processes and practices. Based on the information from Schedules A and B in Annex- 5, the following points emerged.

- Responses from eleven municipal bodies were received in NBO. These include Ahmedabad, Delhi, Kolkata, Mumbai, Coimbatore, Puri, Bilaspur, Korba, Bhilai, Agarthala and Bhopal.

- The data on building permissions issued during the quarter April -June 2008 through Schedule A, Annex-5 is received from all the eleven cities. However information on house construction linked processes and practices through Schedule-B in Annex-5 is received only from two centers namely, Puri and Mumbai .
- As regards construction linked processes and practices, the information (Schedule B, Annex-5) is received only from two centres. It is, therefore, difficult to come to any conclusion regarding the nature of practices followed in various cities across the country. However, the procedures adopted in the cities of Puri and Mumbai are similar barring a few exceptions.
- One can derive only a few conclusions from the limited information (Schedule B, Annex-5) that have been collected and analysed. The attempt nonetheless revealed that the information required for constructing HSUI are largely available at the city level and are already being compiled, although not very systematically. One can also argue that the system can be strengthened to generate whatever additional data requirements may come up for undertaking the exercise. For this, the inter-institutional linkages are to be strengthened and there must be political will at the highest level, backing up the effort.