

# Guidelines / Toolkit for Development of Housing Start-up Index (HSUI)



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## CONTENTS

1.	Introduction .....	1
2.	Objectives, Scope and Coverage of HSUI .....	3
3.	Role of National Buildings Organisation .....	4
4.	Role of State/UT Governments/Municipal Corporations / Urban Local Bodies .....	5
	4.1 Role of State/UT Governments .....	5
	4.2 Role of Municipal Corporations / Urban Local Bodies .....	6
5.	Establishment of HSUI Cell in Cities/Towns .....	7
	5.1 Roles and Responsibilities of HSUI Cell .....	7
	5.2 Financing Pattern & Eligibility Criteria .....	8
	5.3 Components Admissible .....	9
	5.4 General Instructions .....	9
6.	Data collection for Development of HSUI .....	10
	6.1 Structure of the format .....	10
	6.2 Guidelines for Data Collection .....	10
	6.3 Definitions used .....	12
7.	Introduction to HSUI MIS .....	14
	Annexure I : List of selected cities/towns for development of HSUI .....	16
	Annexure II : Format for information on building permits .....	18



## SECTION 1

### 1.1 Introduction

- 1.1.1 House is considered as the most important asset of households and accounts for a major share of household wealth. Any movements in the housing sector may, therefore, have a major effect on economic activity and soundness of the financial sector.
- 1.1.2 Housing and building construction activities have powerful multiplier effects on the economy, operating through the inter-sectoral linkages in the production system. It makes a significant impact on financial sectors as well. This has an impact not only on the construction activities but also on several consumer durables and investment goods sector of the economy. Any movements in the housing sector may, therefore, make a significant impact on economic activities in the country including that of the financial sector. The former would have powerful multiplier effect on the economy operating through the inter-sectoral linkages in the production system. The number of housing starts during a given period reflects the institutional response to the existing number of building permits, besides the current demand for houses. This would have an impact on the outlook of the construction industry due to the backward linkages.
- 1.1.3 Housing Starts are considered to be one of the leading economic indicators because they are forward-looking. A higher-than-expected increase in housing activity triggers economic growth and is considered inflationary and causes interest rates to rise. Similarly, decline in housing activity slows the economy and can push it into a recession, causing yields and interest rates to fall. A more convincing interpretation is that housing sector have direct, causal effect on economic activity and on the financial sector and this amplifies macroeconomic shocks and 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 implies an increase in investment, business and consumer optimism. The housing starts figures provide insight into consumer activity, since new house purchases typically require a large investment for consumers. An economy that is growing rapidly can have an increased demand for housing and thus Housing Start-up Index can be used as an indicator of the demand for new houses.
- 1.1.4 Housing Start-Up Index (HSUI) is considered to be a lead indicator in many developed and developing economies because of its strong forward and backward linkages with various sectors in the economy. The housing and building construction sector being one of the basic infrastructures in the fast growing urban economy needs to be monitored closely so that the index results are incorporated in the major Housing and related infrastructure policy decisions. The recent meltdown at the global level as also in many less developed countries have been linked partially to the 'developments' in the housing sector.
- 1.1.5 Changes in the rate of housing starts speak a lot about demand for houses and the outlook for the construction industry. As more new houses/buildings are get started, construction employment rises causing a higher demand, which eventually cause the goods