

# Social Housing In China And India Investment Outlook

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## Abstracts

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The progress so far; the challenges and opportunities

By 2020, BMI forecasts that the value of India's and China's residential and non-residential construction industries will have more than quadrupled and doubled in size respectively compared to 2010. The lion's share of this investment will be focused in expanding urban centres, where urbanisation on an unprecedented scale brings with it immense opportunities for urban developers over the long-term. BMI notes however that these vast new markets must develop in a way that allows businesses to serve them effectively if they are to realise their full potential.

In this Special Report we will focus on the pivotal issue of affordable housing, which not only holds massive potential for the construction, building materials and housing finance industries, but also for India and China's wider social and economic development. Affordable housing on a mass scale is a requirement for both countries. Moreover, how each country addresses their respective housing challenges will play a vital role in determining not only the inclusiveness of these cities, but the size and shape of the urban construction industry.

While China is now well underway with a major government- driven social housing programme that plans to add a further 36mn affordable homes to its stock between 2011 and 2015, India is by comparison still in the starting blocks. Moreover, total annual capital investment is forecast to average US\$5trn in China between 2011 and 2020, compared to just US\$1.6trn in India. Unable to come close to China's level of state capital spending, India must overcome a number of major obstacles if the private sector is to fill the vast funding deficit created by years of underinvestment in affordable homes and rapid urbanisation.

Over the next decade however we believe India's affordable housing market holds vast potential rewards for private and foreign investors. At BMI's current projections, the growth outlook for India's residential and non-residential building industry between 2011 and 2020 is only modest, forecast to expand by 4.2 percent year-on-year (y-o-y), but with strong risks to the upside.

However, to what extent this potential is realised is contingent on a number of key issues, including: the government's ability to reform its confused urban planning system; the creation of a sustainable social housing model; and a broad-based approach to housing finance. Fuelled by massive capital spending, China's affordable housing programme should play a significant role in offsetting any slowdown in private residential construction activity over the next five years. Having largely failed to meet previous social housing pledges, signs suggest that the political commitment is now there. This will be of great benefit to domestic and state-owned firms in the construction and building materials sector, share prices of which have been buoyed following the announced spending measures. While opportunities for overseas investors will remain relatively limited, foreign firms established in China's construction machinery and building materials sector are among those best placed to capitalise.

However, financing remains a challenge, particularly in lower tier cities where soaring local government debt and corruption are commonplace. Over the longer term, we believe state spending alone will struggle to meet the demands of China's swelling urban population and BMI believes a more flexible approach allowing greater private investment will be needed. Indeed, despite offering narrower margins than mainstream housing projects, huge untapped housing demand across much of the developing world is creating a market with immense investment potential.

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