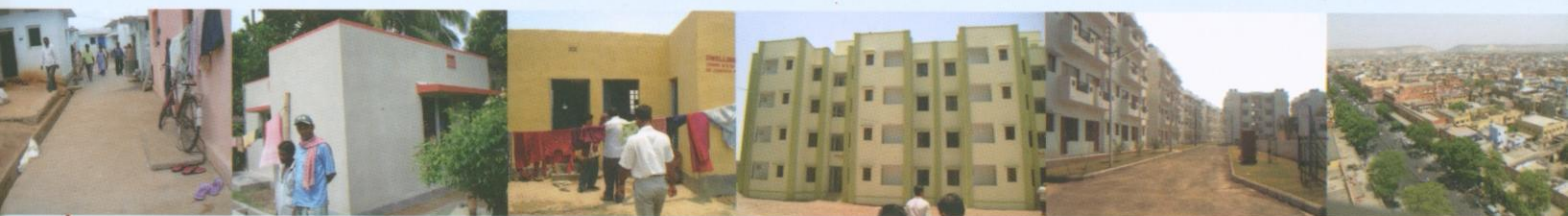


# Guidelines / Toolkit for Development of Housing Start-up Index (HSUI)



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## 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



and services price to rise. Once the house is sold, it generates revenues for the house-builder and a myriad of consumption opportunities for the buyer. Refrigerators, washers and dryers, furniture, etc. are few things new house buyers might spend money on. In a more specific sense, trends in the housing starts data carry valuable clues for house-builders, banks, lenders, and house furnishings companies. 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.

1.1.6 A majority of conventional business cycle indicators used in developed economies are not being used as information variables in India. Monetary authorities benefit by monitoring developments in construction activities for the link between the property prices and aggregate demand of housing and consumer spending on durables. In practice, however, implementing the link by exploiting the relationship is not an easy task for a number of conceptual issues as also at times, due to inappropriate assessment of the property market conditions because of data gaps in emerging economies like India. While rising property prices generally impacts house sale through credit market conditions, falling property prices can amplify the adverse effect on the demand and supply of house and therefore, the housing start data can throw vital information about the persistence of monetary policy shocks through the property market. Although the house prices are traditionally looked for an assessment of operative asset price channel of monetary policy, construction of housing starts data also provides additional and supplementary information about the impact of monetary policy impulses on housing investments and therefore, the index would be useful from the perspective of monetary policy, especially in conjunction with an appropriate index of house prices.

1.1.7 Given this perspective, it has been considered necessary to develop a Housing Start-Up Index, a tool to monitor the movements of the Indian economy on a regular basis based on appropriate methodology and the international best practices. The number of housing starts during a given period reflects the institutional response in a country to the current demand and supply situation in the market, as reflected through operationalisation of the existing building permits into actual starts. The development and release of HSUI will be extremely important for monitoring and predicting the macro economic trends in the country.

## 1.2 International Practices

Internationally, countries like Canada, US, Japan, France, Australia (dwelling starts) are compiling data related to housing starts on regular basis. Most of these countries compile housing starts with housing permits data, collected either through census or sampling method.



## SECTION 2

### Objectives, Scope and Coverage of HSUI

#### Objectives & Scope

- 2.1 The objective of constructing a Housing Start-Up Index (HSUI) is to measure the change in the level of activities in housing sector and to identify the growth/recessionary tendencies in this and related sectors of the economy.
- 2.2 The scope of HSUI would be limited to new built residential units in urban areas of the country, whose construction is authorized through issuance of building permits.
- 2.3 As the objective of the HSUI is to track the changes in the level of construction activities in housing sector, the HSUI may be constructed based on two sets of data
  - (a) The start up coefficients reflecting the recent experience of conversion of housing permits into housing starts and
  - (b) The number of permits issued during the last two years or so.
- 2.4 The start up coefficients, computed from the data in recent past, reflect institutional and social response to housing permits in terms of their conversion into actual housing starts. The time required for administrative and procedural clearance after the issuance of permits, time taken to complete the formalities of obtaining loans, organizing material, community rituals etc. are considered to be rigid or fixed, at least in the short run. As housing is a long term decision, predictions based on these coefficients, that reflect to some extent procedural and social rigidities governing the house construction process, are likely to be fairly reliable.
- 2.5 The objective is to release the HSUI that can be used by housing related agencies as the basic or core predictor. The agencies can combine the index with other short term indicators and policy variables to come to more definitive projections of housing activity.

#### Coverage

- To start with, MoHUPA/NBO has selected 50 cities/towns across the country for development of HSUI. The list of selected cities is at Annexure-I. The coverage will be expanded gradually to include all cities/towns having more than one lakh population in the country.
- The unit for the purpose of reporting data will be the Urban Agglomeration, including the core city and peripheral urbanizing areas as defined by the Census/State Government under the relevant Urban Development Act or Government orders. Thus, it is necessary to map the jurisdiction of agencies/offices in the urban agglomeration for the purpose of recording, compiling and furnishing of data to NBO for HSUI.