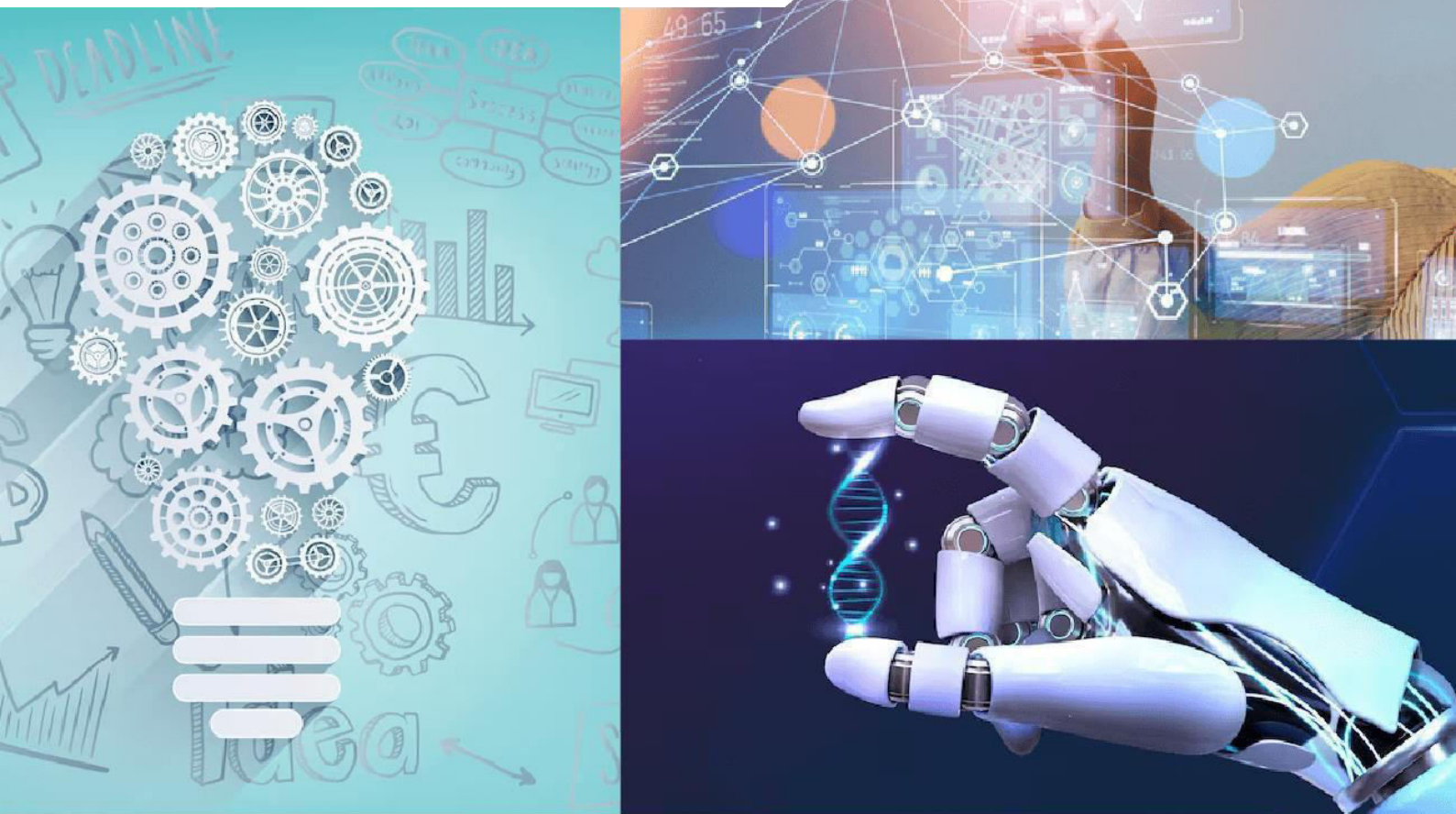




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Affordable Housing vs Luxury Housing: Why India's Urban Housing Crisis Persists Despite Record Construction Growth

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ABSTRACT: There has been significant urbanization and urban housing growth in India, but housing affordability is a critical issue for lower and middle-income consumers. This study explores why the urban housing crisis continues to exist in India despite the surge in construction activity, while placing a spotlight on the disparity between affordable housing and luxury housing. A secondary research methodology has been applied in the study as the secondary sources were only from the academic literature using Google Scholar. Thematic analysis is used to analyse relevant studies on the themes of urbanisation, housing demand, housing affordability, land price, construction costs, housing-market segmentation, infrastructure and government housing policies. Research in the literature suggests that the housing supply does not always translate into adequate access to affordable housing for low-income households. Formal housing may be beyond reach due to high land costs, building expenses, and limited availability of housing finance coupled with income inequality. In addition, the focus can be shifted to more economically rewarding and therefore more attractive luxury and premium developments whereas lower price points may be limited in economic and spatial opportunities. Additionally, the research highlights the significance of housing placement, with prospects that affordable housing built outside the central city could have greater transportation expenses and lower access to jobs and services. The provision of affordable housing increased because of the government intervention, but it still has implementation and accessibility challenges. The study finds that India's housing problem is not only due to the quantity of houses being built but also to the mismatch between the supply of houses, their affordability and where they are being built and the effective demand of the households.

KEYWORDS: Affordable Housing; Luxury Housing; Urban Housing Crisis

I. INTRODUCTION

India's rapid urbanisation and growing residential construction projects haven't solved the urban housing problem in the country. The problem becomes more and more defined in terms of whether more houses are built, or if they are built in a way that is affordable, properly placed, and open to the lower- and middle-income groups. Data indicate significant strides in Pradhan Mantri Awas Yojana-Urban (PMAY-U) as well, with over 116 lakh houses sanctioned and over 93 lakh houses completed, highlighting the extent of public and private housing activity in urban India (Abhijat and Pathak, 2023). But affordability issues don't necessarily need to be correlated with limited housing supply if new developments are focused in areas with higher commercial returns. The Reserve Bank of India study points out that high land costs, delayed approvals, construction costs, and the relatively low returns on affordable housing are significant barriers to private investment in affordable housing, and developers have an incentive to pursue middle- and high-income markets. To cater to the needs of the urban migrants and economically weaker households, the Ministry of Housing and Urban Affairs has therefore launched various initiatives like Affordable Rental Housing Complexes. This research thus looks into the affordable-luxury housing divide in India and studies the reasons for the lack of adequate growth in construction and yet its failure to make housing affordable to urban households (Bhate and Samuel, 2022). It takes account of market incentives, land values, income inequalities, urbanisation, government policy and the lack of adequate housing supply and demand.

II. RATIONALE AND OBJECTIVE

Rationale

The urban housing problem in India needs to be looked at not just in terms of the amount of construction, but at making housing affordable too. Newly developed housing may be out of reach for lower income households due to rapid urbanisation and rising land values, rising construction costs, and the disparity between household income levels and property values. Meanwhile, developers are also likely to have better business motives to build middle income and

high-end units with substantial income returns (Bhanot et al., 2020). The increased supply of affordable housing provision is a result of the various government initiatives such as PMAY-U, but the ongoing pressure on urban households indicates that the supply, affordability, location and accessibility should all be taken together. This study is therefore significant as it examines the reasons for the failure of housing growth to automatically alleviate urban housing insecurity. It also addresses the question of how the supply of truly affordable housing relates to the market-oriented luxury development. The study can help to understand some of the structural drivers of urban housing inequality in India and may help pinpoint housing policy and urban planning interventions that could help reduce the housing divide (Biswas, 2025).

Objectives

1. To examine the growth and changing composition of affordable and luxury housing construction in major Indian urban markets.
2. To analyse how land prices, household incomes, construction costs, developer incentives and urbanisation influence the affordability and accessibility of housing.
3. To evaluate the extent to which government housing initiatives and existing urban housing policies address the gap between housing construction growth and the housing needs of lower- and middle-income households.

III. METHODOLOGY

The research design used in this study is secondary data research design which aims to investigate the cause of the urban housing problem in India in spite of the rapid pace at which the housing construction in urban areas continues. There will be no primary surveys, interviews or questionnaires. Secondary data will be gathered only from Google Scholar with the search terms: affordable housing, luxury housing, urbanisation, housing affordability, housing policy, urban inequality, land prices, construction growth and housing. Only those studies that have relevance to the research objectives, good academic quality and have been published within the last ten years, and have direct contribution to the understanding of Indian housing market will be considered. Google Scholar is a good resource for accessing scholarly literature and can help with the systematic identification of relevant literature. Thematic analysis will be used to analyse the collected literature and sort out the findings into the five following themes: urbanisation and housing demand, affordable housing versus luxury housing, land and construction costs, location and infrastructure, and government housing policy. Some common patterns, contradictions and gaps in the findings will be identified by comparing the findings of different studies. It is important to evaluate the quality, relevance, methodology, and limitations of the existing evidence before interpreting secondary research. There will be no direct risks to participating in the study as this study is based on published academic research and will not include human participants or personally identifiable information. However, academic honesty will be upheld by accurate citing, avoidance of plagiarism, accurate representation of findings of authors and appropriate acknowledgment of all sources. Research that has been conducted before will not be distorted or cherry picked. The ethical use of secondary data, data privacy, or confidentiality as appropriate, and appropriate interpretation of existing evidence should also be considered in doing secondary data research.

IV. LITERATURE REVIEW

Theme 1: Urbanisation and the Growing Demand for Housing

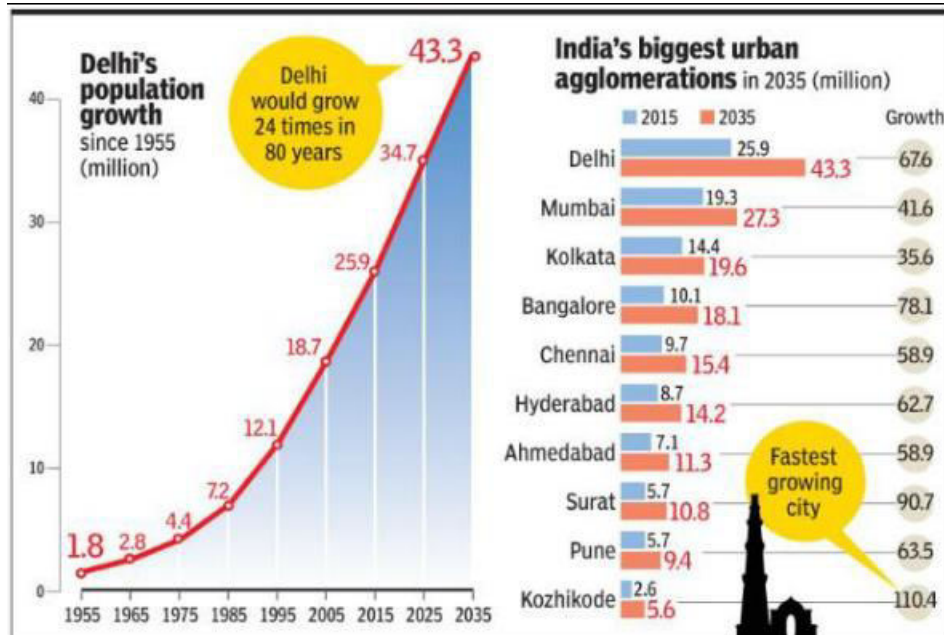


Figure: Growth of India's Urban Population and Increasing Housing Demand

Rapid urbanization has led to a surge in demand for housing in both large cities and urban centers with strong economic growth, such as metropolitan areas in India. Demand for housing has remained strong due to population growth, rural to urban migration, employment opportunities and a changing household structure (Coelho et al., 2022). The growth of urban housing needs, however, has not been accompanied by such an equivalent access to housing for all income levels. The literature has indicated that Indian urban housing problem is therefore not only a lack of physical houses but also a lack of affordability, accessibility, location and quality of housing. Household housing needs are very heterogeneous at the urban household level, depending on its income level, employment status and family situation (Khaire and Jha, 2022). Higher income than other households could be involved more effectively in formal housing markets, while lower income households can rely on informal settlements, rental housing or overcrowded housing. This distinction becomes important between the housing demand and the effective housing demand. While a large number of households may require housing, only those with adequate buying power can obtain the formal market supply. Urban development too has put pressure on the land. As urbanisation expands, land prices rise as they get nearer the employment and transport hubs and as they become more accessible to social facilities (Ghumare et al., 2020). It is therefore hard for developers to offer low cost housing in the central or well connected parts of a city. More affordable developments can be found on the outskirts of the city, with potentially less access to job opportunities and services. From the literature, there is therefore evidence that there are a number of linkages whereby urbanisation is a cause to the housing problem. The more people that live in an area, the more demands are placed on it, and the more land that is available for development, the higher its cost. Meanwhile, inequalities in household incomes set the boundaries for participation in the formal housing market. So, simply adding to the total housing supply does not guarantee that the housing needs of poorer households are met. The issue of housing insecurity despite significant urban construction growth reflects India's housing challenge is structural, a mismatch between housing built, type of housing built and accessibility of those who can afford to build (Ghumare et al., 2020).

Theme 2: Affordable Housing versus Luxury Housing Development



What is an affordable house?

AS DEFINED BY KPMG

	Income level	Size of dwelling unit	Affordability
EWS	Rs 1.5 lakh a year	up to 300 sq ft	EMI to monthly income 30-40% House price to annual income Less than 5:1
LIG	Rs 1.5-3 lakh a year	300-600 sq ft	
MIG	Rs 3-10 lakh a year	600-1,200 sq ft	

AS DEFINED BY MINISTRY OF URBAN POVERTY ALLEVIATION (2011)

	Size	EMI or rent
EWS	- Minimum of 300 sq ft super built-up area - Minimum of 269 sq ft carpet area	Not exceeding 30-40% of a buyer's gross monthly household income
LIG	- Minimum of 500 sq ft super built-up area - Maximum of 517 sq ft carpet area	
MIG	600-1,200 sq ft super built-up area - Maximum of 861 sq ft carpet area	

EWS: Economically weaker section, LIG: Low income group, MIG: Middle income group

Figure: Projected Housing Demand across EWS, LIG, MIG and HIG Groups in India

One of the most prominent topics in the literature is the difference between socially required housing and market demand housing. In general, affordable housing is designed for families who make a relatively modest income, while luxury housing is designed for consumers who have a larger purchasing power. It presents an important question in India: How is it that there is so much construction going on, but not enough affordable, accessible homes for the lower and middle income groups? The commercial considerations have a significant impact on housing development. The developers need to recover costs of land, labour, materials, finance, approvals, infrastructure and marketing (Kaur and Gupta, 2019). The difference in income between these groups allows for higher-priced projects that will generate higher revenues, as the higher income buyer can afford to pay more for the larger home, better amenities, desired

location and additional services. This can make premium and luxury developments more attractive to developers, leading to increased investment in this type of development. Other economic issues are related to affordable housing. Developers may only be able to offer small margins as selling prices must not exceed target households' purchasing power (Kundu and Kumar, 2017). This is especially challenging in prime urban sites due to their high land costs. It is therefore more attractive for developers to pursue projects with more favorable returns, instead of developing projects aimed at households with less buying power. Some previous studies also suggest that simply being classified as affordable does not guarantee a dwelling is financially accessible. A house may satisfy the needs of a specific policy or a specific price limit but have a level of income, savings or credit access that is beyond the means of poorer households (Khaire and Jha, 2022). This distinction is significant because one of the primary variables measured in construction statistics is units constructed not the number of households that can actually afford or rent those units. There is thus no reason why luxury housing development should be an impediment to an affordable housing shortage. These are developments to a different group of the demand. Rather than being 'preventing all the affordable housing', the problem may be that land, capital and incentive toward developers can be focused on higher-value sectors. It is important to have a grasp of this market segmentation to be able to describe why there can be continued housing inequality in urban areas while there is a record rate of house construction (Khaire and Jha, 2023).

Theme 3: Land Prices, Construction Costs and the Affordability Gap

Structural factors that have been identified as important in the literature are land prices and construction costs in Indian cities. The ability to access appropriate and legally usable urban land is a key land consideration for residential development. Land is very expensive near employment hubs and transport facilities in large cities. The developers are thus faced with a problematic question of whether to develop in a high-demand area on the expensive side or to develop in the less populated areas on the outskirts where land is less expensive (Kumar and Shukla, 2022). Another factor that affects the cost of housing is construction costs. Development costs may rise due to materials, labour, financial costs, regulatory requirements, project infrastructure costs and project delays. The costs are different in relation to affordable and luxury housing as these market segments have different opportunities for high spending to be recovered by high prices. The other key factor of affordability is household income. The capacity to buy a property is not just a function of the actual cost of the property, but is also dependent on the relationship between the cost of the property, household income, savings, and borrowing capacity (Kundu, 2014). If the increase in house prices outpaces the growth of household purchasing power, it becomes more difficult to own a home. Lower-income households are especially at risk because they can least afford to cover rising home payments, rents, maintenance costs and transportation costs. The access to formal housing finance also plays a role in the affordability gap. Households engaged in informal employment or those with irregular income may encounter loan application problem or inability to prove ability to repay the loan. Where financial institutions provide housing credit, the necessary deposit or monthly repayment can still be a barrier for poorer households (Mahadevia et al., 2018). The literature thus shows that housing affordability is a product of the interaction between land markets, construction economics and household incomes and access to finance. These are structural barriers which cannot be overcome with more building. The increased supply of new homes will, if they continue to cost more than households with housing stress can afford, largely benefit households already better off in the housing market. This explains why urban housing inequality can decline while in the midst of construction growth (Nagarjun and Sridhar, 2023).

Theme 4: Location, Infrastructure and the Hidden Cost of Affordable Housing

In the literature, housing affordability is now recognized as the purchase price or monthly rent of a dwelling, as well as a range of other factors. Where people live influences their access to jobs, schools and hospitals and to public transport and other services that are important for living. This means that a relatively low-cost home can impose extra costs if it is not near workplaces or convenient from a transport perspective (Rao and Biswas, 2025). This is of special significance in fast growing urban areas of India. In established urban areas, as land becomes more costly, affordable developments may be forced to be located further away from the core. Households residing in peripheral areas can face longer commuting distances and higher transportation costs, but development in these areas can lower costs. This can offset slightly the apparent saving from the lower housing cost, as greater daily expense is incurred. Geographical location also impacts job opportunities. For lower-income households, access to jobs is an important reason to live close to workplaces, as long commutes can take up time and income. When housing comes from jobs is not that accessible, people may have to make a choice between living in a low-cost area or working for better jobs. This can make the housing less affordable. Another important factor to take into account is infrastructure quality (Sanga, 2022). Reliable water, sanitation, electricity, roads, public transport and social facilities are needed for affordable developments. However, where these services are not available, households may have to incur extra expenses and suffer from a lower standard of living. It is important to understand that while the number of units built is an important indicator of housing success, it does not necessarily represent the quality of housing conditions. The literature thus

stresses on spatial affordability. Even if the number of low-cost units is expanded through housing policies, limited effects are likely to materialize when these units are not tied to the rest of the urban economy (Parashar, 2014). This is also one of the reasons for the disparity between cheaper and fancy houses. Well connected and well-provisioned places tend to cost more for higher income households, and less for lower income households. Hence, the housing problem in India continues not only because they have to build the houses on a cheaper rate, but also they have to build houses on a cheaper rate which are well connected and have the necessary services in functioning urban environments (Sengupta, 2019).

Theme 5: Housing Policies and the Gap between Construction and Actual Housing Need

One of the key points that is brought up when talking about urban housing issues in India is government intervention. There are some national and State level programmes focussed on increasing affordable housing, giving financial support and promoting the participation of the private sector in improving the economic state of lower-income households. The interventions signal an understanding that the market alone might not be adequate to provide housing to households with restricted purchasing power (Sengupta et al., 2018). Even with this said, there is an important mismatch between housing policy goals and what actually happens in reality. Housing programmes can contribute to construction efforts, but they can only be effective if there is land, member of staff capacity, identification of beneficiaries, are there funds, are there infrastructures, and there is coordination between different levels of government. Hence, a policy might lead to a substantial amount of approved or built housing units, but not necessarily solve the wider issue of affordability of urban housing (Khaire and Jha, 2024). The next one is about the difference between housing production and housing access. Construction statistics are typically based on units approved, started or completed. These indicators reflect the activity of development but don't necessarily reveal the ability of intended beneficiaries to afford the homes, the occupancy of the homes or whether residents have access to employment and services. Private developers also play a role in the housing market, which is influenced by the profitability of their actions (Sinha and Nishad, 2021). There are many reasons for private investment in affordable housing, one of which is the use of incentives, but there are also land and building costs, and a need to factor in what you would expect to get back. This perpetuates a conflict between social goals and economic motives. The literature thus indicates that addressing the urban housing shortage can't come down to just building more houses. Policies should tackle the costs of land, financing, rental housing, infrastructure, transport and the location of new development. It is also important to pay more attention to the specific needs of the poor and the less-privileged sections of the society and not consider urban housing demand as a uniform market (Haffner and Hulse, 2019). In sum, the continued presence of housing issues and a robust construction industry can be interpreted as a lack of alignment between housing supply and meaningful social demand. What matters is not the number of houses being built, but whether the houses being built are affordable and whether the homes are located and accessible to the household in the most severe housing needs (Priyadarshini and Gundimeda, 2026).

V. CONCLUSION

It is not just that India is short of housing, it is a chronic problem. The literature reviewed in this study shows that significant residential development can be achieved while keeping affordability issues alive, which is crucial, as the nature, cost and location of the housing is as vital as the number of units built. The rising demand for housing has been driven by rapid urbanization, but the high value of land, cost of construction and shortage of housing finance have curbed the access of lower income group households to formal housing markets. Meanwhile, improved commercial opportunities can spur developers to build on the middle market, premium, and luxury housing categories where potentially better profits can be earned. The review also reveals that housing that is out of sync with employment opportunities and key infrastructure amenities can generate higher transportation and living costs making it less affordable now. Implementation problems and the mismatch between the supply and the demand for housing have persisted despite the government's efforts to expand the supply of affordable housing. In general the housing problem in India stands as a mismatch between the growth of housing and the effective housing need. To solve this issues need to be given more importance to affordable land, accessible finance, well connected places, rental housing and appropriate policy implementation. Future housing strategies should not only consider the numbers of houses being built, but also their location, who can afford them and whether they are needed by the urban homes themselves.

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