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SMART CITY HOUSING: A PROMISE OF FUTURE OR A DREAM TOO EXPENSIVE TO REALIZE?

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ABSTRACT

In the era of rapid urbanization, smart cities are emerging as the future of society, it is the intertwined dance of data driven technology with sustainability which further elevates living experiences of urban life. ***"The city that works, is housing affordable? Or are people deprived of the future this city offers?"***

*This dream comes with a price to pay, these developments often inflame the issue of affordable housing, challenging the middle- and lower-income groups. This article dwells into the interplay between real estate taxation and housing affordability in smart cities, endorsing a transition from developer-fixated tax policies to consumer-entraled frameworks ,by introducing tax rebates, concessions, and credits, democratising access to housing.The article engages in integrated-research, dancing with the comparative analyses of global taxation models, Secondary data, and voices of stakeholders.Successful international practices like the "**Tax Cuts and Jobs Act"** (TCJA) in the United States and "China's Residential Property Tax Pilot in Shanghai" are put under scrutiny to identify the solutions, recommending their implication in India.*

Furthermore, the paper underscores the importance of integrating green technologies into housing projects to address climate concerns while promoting affordability. Recommendations include offering tax incentives for eco-friendly initiatives, balancing smart city with smart zoning policies. The paper rests by advocating for reconceptualized tax policies empowering the weaker section of society, thus enhancing housing affordability

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and further aligning with India's vision of Smart Cities. Such measures promise not only to accelerate urban development but also acts as a stepping stone to foster social equity and environmental responsibility in the real estate sector, killing two birds with one stone.

INTRODUCTION

A city where the traffic light adjusts timing according to traffic flow, trash cans work on a sensor to detect and signal to clear them, where there is zero carbon emission, and electricity distribution is optimized, sounds like a dream, right? But what if it's real?

Smart cities are turning these dreams into reality. A smart city uses AI and data-driven technology to make decisions, thus improving urban life. These smart cities often focus on areas like transportation, public services, and waste management while using technology and automation to solve issues, making it more sustainable and efficient. These cities have been positioned as an engine of the economy, yet somehow intensifying affordability challenges for consumers. This is due to the surge in demand and sky-high cost of real estate in these cities, which often makes them unaffordable to the less privileged section of society. The existing tax framework remains inadequate to solve these current crises as it prioritizes investors and developers' interests and is skewed towards the wealthier section of society. This article advocates for a transition from developer-centric tax policies to a consumer-focused approach by introducing tax-rebates, concessions, and tax credits to consumer investing in Smart cities. This shift will democratize housing while fostering market growth, enabling the country to compete on a global footing.

METHODOLOGY

This study plays with a mixed-method approach to study the research gap of this article. The authors conduct a comparative analysis of different taxation methods used by the countries with smart cities to analyse how tax policy could be reformed, enhancing housing affordability in Smart cities. Additionally, they review secondary data from surveys, data from usage of data-driven models, and interviews of home-owners, policy makers, and developers to get their insights on the intertwining of affordability and Smart cities.

LITERARY REVIEW

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Global benchmark in real estate taxation: The TCJA-

Owning a home has been an intrinsic component of finding fulfillment and everlasting prosperity, but a confluence of factors is foiling the shared aspiration for numerous people in America. To wade through the challenges, in December 2017, The United States Congress passed one of the transformative enactments in history: the "***Tax Cuts and Jobs Act***" (TCJA)[1] , which was effective in 2018. This particular act significantly altered tax laws, considerably bringing change in standard deduction raising it from $6,350 to $12,000 for single taxpayers and for married couples who filed jointly it rose from $12,700 to $24,000.[2] In addition to that, the deduction for the state and local taxes were confined at $10,000[3]. Before TCJA, the deductible mortgage debt was on the interest of the first $1 million ,after the act being passed it declared that interest on the first $750,000[4] shall be deductible. The aftermath of the implementation and change in subsidy rates obtained substantial transformations where it is distinctively seen that due to the decrease of 10.7 percentage -point[5] in subsidy rate, the growth rate of mortgages for newly purchased residences declined about 0.6 percent[6]. This act signaled a crucial shift in the domain of tax thereby leading to a high possibility of decline in home values making it affordable for purchasing their dream home.

1 M Rader, The Tax Cuts and Jobs Act of 2017 : Implications for the US real estate market, Corporate Real Estate Journal, March 2020, https://www.semanticscholar.org/paper/The-Tax-Cuts-and-Jobs-Act-of-2017-%3A-Implications-US-Rader/d47c055ba21c81e6aefc2811dd12de5f2cd34ddd

2 Robert McClelland, Livia Mucciolo, and Safia Sayed, HOW DID THE TAX CUTS AND JOBS ACT OF 2017 AFFECT THE HOUSING MARKET? ,March 2022, https://taxpolicycenter.org/sites/default/files/publication/163723/brief-how-did-the-tax-cuts-and-jobs-act-of-2017-affect-the-housing-market.pdf

3 Robert McClelland, Livia Mucciolo, and Safia Sayed, HOW DID THE TAX CUTS AND JOBS ACT OF 2017 AFFECT THE HOUSING MARKET? ,March 2022, https://taxpolicycenter.org/sites/default/files/publication/163723/brief-how-did-the-tax-cuts-and-jobs-act-of-2017-affect-the-housing-market.pdf

4 Robert McClelland, Livia Mucciolo, and Safia Sayed, HOW DID THE TAX CUTS AND JOBS ACT OF 2017 AFFECT THE HOUSING MARKET? ,March 2022, https://taxpolicycenter.org/sites/default/files/publication/163723/brief-how-did-the-tax-cuts-and-jobs-act-of-2017-affect-the-housing-market.pdf

5 Robert McClelland, Livia Mucciolo, and Safia Sayed, HOW DID THE TAX CUTS AND JOBS ACT OF 2017 AFFECT THE HOUSING MARKET? ,March 2022, https://taxpolicycenter.org/sites/default/files/publication/163723/brief-how-did-the-tax-cuts-and-jobs-act-of-2017-affect-the-housing-market.pdf

6 Robert McClelland, Livia Mucciolo, and Safia Sayed, HOW DID THE TAX CUTS AND JOBS ACT OF 2017 AFFECT THE HOUSING MARKET? ,March 2022, https://taxpolicycenter.org/sites/default/files/publication/163723/brief-how-did-the-tax-cuts-and-jobs-act-of-2017-affect-the-housing-market.pdf

Residential Property Tax Pilot in Shanghai

China's initiatives to traverse through the tempestuous waters for affordable housing has led to a captivating patchwork of policies which ruminate it contend against speculation with the goal of providing homes for rapidly developing urban populace. China formulated many policies, one of which the *Residential Property Tax Pilot in Shanghai* [7]brought a notable positive response which denotes that the program was accomplished in regulating housing prices in the housing market, making it affordable for an intended purchase. The program was determined to increase the holding cost for investors and as a result a reduction in speculative demand was seen, even though the exemptions was given to luxury market stated that there was no impact on them, but a study done by a SSRN in 2024 marked 7 to 9 percent reduction in price in affordable housing domain in shanghai and furthermore it indicated that the areas that were taxed witnessed a 12 percent rise in affordable unit sales as investors switched to minimized properties.

"The Tax Cuts and Jobs Act" (TCJA) in the U.S and China's Residential Property Tax Pilot in Shanghai both strive to elevate housing affordability and acts as an added advantage to the government i.e., implementing these kinds of models can help the government generate revenue, bring stability in the economy and, endeavours to bolster public trust. These models can serve as crucial examples on a global base for governments who are striving to achieve the goal of affordable housing and improve the lifestyle of every resident. Ultimately, pre-emptive financial strategies in housing can establish a foundation for thriving and resilient future

INSIGHTS AND SUGGESTIONS

In their research, the authors discovered the following:

1.1. Dynamic property taxation

Smart city data can be used to evaluate property taxes based on real-time affordability metrics, which will act as an influential weapon for the municipalities to regulate taxes based on the economic reality of the residents. *The income-to-rent ratio, which compares*

[7] Soomi Lee , SSRN, January 7 2025, Shanghai's Residential Property Tax Pilot on Housing Prices ,https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5017306

a property's income to the local rent, helps in assessing the value of the property[8], which plays a major role in calculating property tax, thus providing insights into affordability. A lower ratio indicates greater affordability, while a higher ratio signals low affordability.

The authors suggest that by using Smart city data, one collected by the sensors and other devices, cities can track fluctuating house rent, price and other economic factor which will help the municipality to adjust property tax in real-time to adjust to current affordability conditions. For example, if the ratio is high, it indicates lower affordability, thus taxes can be lowered or a rebate could be given, conversely, if the ratio decreases, the taxes can be increased to compensate the funding. This ensures fairness by aligning property taxes with consumers' ability to pay, thus fostering affordability. By adopting machine learning techniques, as suggested by ***Francisco Louzanda's research***[9], cities can create a responsive, data-driven tax model that adapts to changing economic conditions, ensuring affordable housing for all.

Data from Survey

Urban housing Affordability is facing significant challenges in India, marked by a 36% decline in affordable housing supply (homes ≤₹1 crore) between 2022 and 2024, within cities like Hyderabad, Mumbai, and Delhi-NCR seeing severe drops of 69%, 60%, and 45%, respectively[10]. Developers increasingly favor luxury smart city projects due to rising land costs and financing difficulties, exacerbating affordability gaps. Speculative demand further inflates prices, with Bengaluru's prime areas seeing properties flipping for 30–40% profit within months[11]. Rental yields in metros remain below 4%,[12] with Mumbai's 2BHK

[8] Laura Agadoni, What is Rent-to-Income Ratio and Why Should Landlords Care? , The Motley Fool, Sep 9, 2024 at 1:32PM, https://www.fool.com/investing/stock-market/market-sectors/real-estate-investing/basics/rent-to-income-ratio/

[9] Francisco Louzada, Kleython José Coriolano Cavalcanti de Lacerda, Paulo Henrique Ferreira, and Naomy Duarte Gomes, Smart Renting: Harnessing Urban Data with Statistical and Machine Learning Methods for Predicting Property Rental Prices from a Tenant's Perspective, volume 8, Published: 27 January 2025, **https://www.mdpi.com/2571-905X/8**

[10] India's Affordable Housing Crisis: Shrinking Supply, Rising Challenges, Aurum PropTech Pulse, 31st Jan 2025, https://www.aurumproptech.in/pulse/media/indias-affordable-housing-crisis

[11] Soupik Datta, Bengaluru real estate: Landlords start compromising on rents as city sees new supply, more rental options, Hindustan Times, Dec 23, 2024 05:44 PM IST, **https://www.hindustantimes.com/real-estate/bengaluru-real-estate-landlords-start-compromising-on-rents-as-city-sees-new-supply-more-rental-options-101734955599802.html**

[12] Prakhar, Exploring Rental Yield in Mumbai's Property Market, The NoBroker Times, January 31, 2025, 12:00 AM, https://www.nobroker.in/blog/rental-yield-in-mumbai/

rentals averaging ₹30,000/month, despite high property prices[13]. In contrast, non-metro affordable housing yields 5–6.7%. Middle-income buyers are frustrated, facing high EMIs and job insecurity, while developers focus on high-margin luxury projects. Despite the government's ₹18,000 crore allocation to affordable housing through the Smart Cities Mission[14], implementation has been slow, and subsidies like **PMAY** are insufficient in metros where prices exceed ₹1.5 crore. Speculative transactions dominate both metros (40–50%) and Tier-2/3 cities (10–15%). [15] The authors recommend implementation of tax rebates, speculation surcharge, rent-to-income caps, and smart zoning incentives to prioritize affordable housing in the Smart city.

View of the Scholars

The authors, while researching, took secondary data such as surveys, discussions and views of other scholars on the issue of affordability in the Smart city. They were bearing one question in mind: What is the opinion of people on Affordability in a Smart city, and how can Tax reforms help solving the crisis?

Secondary data taken from a Research conducted[16]

Residents express their dissatisfaction over mounting housing costs in smart cities, showing concerns that these advancements may not be accessible to middle and lower-class families. Furthermore, Retailers evince their distress that inflation could dissuade customer spending, while builder's acme challenges from fluctuating costs and emphasize the need for innovative funding. Overall, there is a consensus that effective tax policy reforms are necessary to ensure that affordability is addressed in smart city developments for all demographics

[13] Sunny Garg, Average Cost And Increase of Rent In India in 2025, Crib, 11th February 2025, https://www.cribapp.com/resources/average-rent-india
[14] Prof. Varsha Vaswani, Prof. Grishma Shah, Prof. Juhi Shastri Soham, Volume – VII, GAP BODHI TARU, pg-1, 2024, https://www.gapbodhitaru.org/res/articles/(471-476)%20SMART%20CITIES%20AND%20AFFORDABLE%20HOUSING%20A%20COMPREHENSIVE%20ANALYSIS%20OF%20URBAN%20DEVELOPMENT%20IN%20VIKSIT%20BHARAT.pdf
[15] Jayesh Rajpurohit, Decoding India's Housing Future: Trends Driving Residential Real Estate in 2025, ANI news, 27th January,2025, 17:40, https://www.aninews.in/news/business/decoding-indias-housing-future-trends-driving-residential-real-estate-in-202520250127174053/
[16] Varsha Vaswani, Grishma Shah & Juhi Shastri Soham, Smart Cities and Affordable Housing: A Comprehensive Analysis of Urban Development in Viksit Bharat, GAP BODHI TARU, Vol. VII, Special Issue on "Viksit Bharat - Towards Five Trillion Economy" (Feb. 2024), https://www.gapbodhitaru.org/

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Interviews and Blogs

Smart cities in India are often associated with higher real estate costs due to the technologically advanced infrastructure and quality of life. The scholars believe that this apprehension will make housing unaffordable for lower and middle-income families, especially if there is no appropriate planning to address these crises.[17] Furthermore, they fear that the popularity, due to the focus of these cities being sustainable homes, will fuel affordability concerns as the upfront expenses and maintenance will roar, pushing the developers to focus on high-end markets.

Rahul Kapoor quoted in his interview with economics times "***The Smart City Mission is not focussed on creating bastions of high-tech living. In a smart city, technology is just an enabler for the development of efficient and inclusive systems and services. A city becomes smart when it has the infrastructure and the systems to meet the aspirations of all sections of society***[18]" Mo Hamzian in his blog raised the question "***it's essential to ponder: at what cost is this future being built***?[19]" according to him, Residents in smart cities are burdened with the fiscal burden of these advancements. These scholars are also in the view that modification in tax policies, subsidized tax rate, change in funding mechanisms and Consumer tax rebates can help in making housing affordable in Smart cities.

VIEWPOINT OF THE AUTHOR

As India moves towards the vision of Smart Cities, one of the biggest challenges is ensuring affordable housing for all citizens, especially for the weaker sections of society. By integrating green technologies such as solar power, wind energy, and biogas systems into housing projects, we can create a sustainable, affordable, and eco-friendly living

[17] **Approva, Smart Cities in India: How They're Shaping the Future of Real Estate, Homesfy, October 3 2024, https://homesfy.in/blog/example-4/smart-cities-in-india-how-theyre-shaping-the-future-of-real-estate/#2_Appreciation_in_Property_Values**

[18] Anoop Verma, Real estate is the powerhouse to transform India: Smart cities, affordable housig, advance infra,Oct 3, 2024 at 12:10 PM, https://government.economictimes.indiatimes.com/news/smart-infra/real-estate-is-the-powerhouse-to-transform-india-smart-cities-affordable-housing-advanced-infra/113880695

[19] **Mo Hamzian, The Affordability Paradox: Are Smart Cities Leaving Average Citizens Behind?,Linkdin, Nov 5 2024, https://www.linkedin.com/pulse/affordability-paradox-smart-cities-leaving-average-citizens-hamzian-rhm3e**

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environment. This not only supports the economic growth of India but also addresses critical climate issues, preserving the beauty and natural resources of Indian territories.

To further this goal, the government can play a crucial role by offering tax rebates, credits, and discounts to encourage compliance with these green initiatives. By reducing cess, surcharges, and providing tax benefits to developers and consumers alike, the government can incentivize the construction of affordable, energy-efficient homes in Smart Cities. This will directly benefit the weaker sections of society by improving their living standards while fostering India's transition to a smarter, greener future. For instance, developers could be granted significant tax credits for incorporating solar panels, wind turbines, or biogas systems into their projects. This would reduce construction costs and make housing more affordable for consumers. Likewise, tax rebates on electric vehicles (EVs) could encourage residents to adopt clean transportation options, further reducing the city's carbon footprint and improving the quality of life for everyone.

More importantly, focusing tax policy on consumer benefits rather than just developer incentives ensures that these advantages directly impact those who need them most. By targeting lower-income families with subsidies for green technologies and eco-friendly housing, the government can make sustainable living affordable and accessible. Such policy shifts would align with India's broader goals of reducing emissions, combating climate change, and making Smart cities more livable.

Take the example of countries like Singapore and the Netherlands, which have effectively utilized tax incentives to promote green infrastructure in urban housing projects. Their success stories demonstrate how targeted tax policies can lower costs for consumers while promoting environmental responsibility, paving the way for a more sustainable urban future. Ultimately, by reforming tax policies to focus on consumer-centered benefits, we can empower the weaker sections of society, improve their access to affordable housing, and help India compete on a global scale in building smarter, greener cities.

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CONCLUSION

"A city that works should be affordable and not deprive ordinary people from the future promises it offer."

The authors would like to rest their paper by underscoring the intricate intertwinement of taxation, smart cities and affordable housing. The widening disparities between affluent and disadvantaged populations due to the accelerating urbanisation and higher real-estate prices presents substantial challenges to social equity and sustainability. The current tax structure further fuels the widening gap due to its approach, highlighting the urgent need for reforms. By welcoming the successful practice of incorporation of green technologies and targeted tax incentives from the globe one can foster a more equitable housing environment while also enhancing the quality of life of residents. Furthermore, it is the voice of the policymakers, stakeholders, and ordinary people who demand these revolutions. As one contemplates the future of urban living, it is essential to leverage the structure ensuring the inclusiveness of all in the future which the smart city offers rather than perpetuate inequality.