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How have home prices moved

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House prices have shown an increase of just 1.4% in FY21 (first three quarters of the year) after growing by CAGR of 5.6% in the quinquennium ending FY20. The Indian market has been doing better than the global counterparts up to FY20 which is quite significant. The way forward would be interesting because under the second wave of the virus, this sector which was already facing headwinds will now be pushed back further as uncertainty looms. While work from home habit will lead to greater demand for homes and the push given to affordable housing should also help, overhang of supply will pose challenges. Also, there can be change in preferences to tier-2 cities and away from metros. These trends need to be monitored closely.

How have home prices moved?

The RBI compiles quarterly house price index (HPI) for 10 major cities and based on these city indices an all-India index is computed. The All-India Index is a weighted average of city indices where weights are based on population. These indices are prepared on the basis of official data of property prices received from registration authorities of respective state governments. This report analyses the trend in all India HPI and city wise HPI for the 10 major cities during the period FY2015 to FY2020. The fourth quarter of every year has been selected as the basis for analysis.

All India HPI

The All India HPI and year-on-year percentage change is shown in Table 1 below. The index moved from 212.1 in Q4-FY15 to 278.1 in Q4-FY20 thus registering a CAGR of 5.6% during the five-year period. The annual growth rates varied as can be seen in the Table from 3.3% to 17.5%. In the last two years there has been a tendency for prices to grow at an average of 3.75% and is hence moderation from 8.6% in the previous two years.

The CAGR of 5.6% may be compared with growth in GDP during this period which was 6.7%. Therefore, house prices have grown at a lower rate than GDP during this period. In fact, adjusting for population, the growth in per capita income would be similar to that in housing prices.

Further, with respect to inflation, CPI for housing component moved from 116.1 in FY15 to 152.2 in FY20, a CAGR of 5.6% which is in line with the compounded growth rate of HPI. However, CAGR in headline CPI was 4.2% for this period indicating thereby that housing prices far exceeded general inflation which was more or less within the RBI target range of 4%.

Table 1: All India HPI in Q4 (FY15 to FY20)

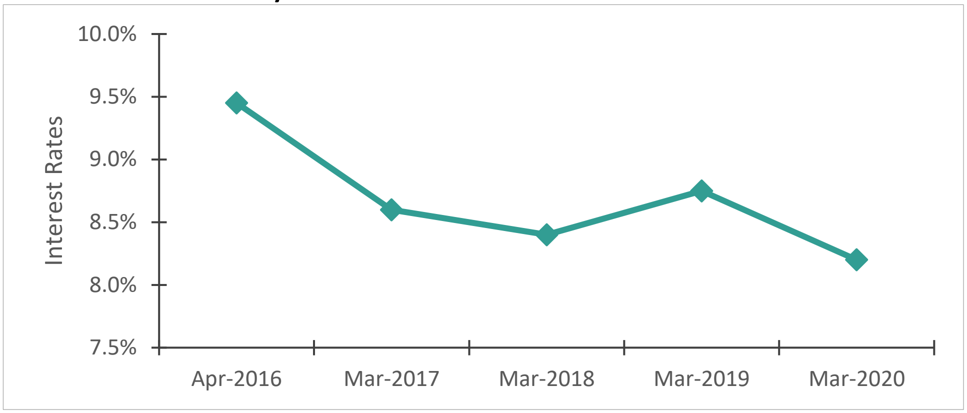
Period	All India HPI	Y-o-Y change
FY15	212.1	17.5%
FY16	219.1	3.3%
FY17	242	10.5%
FY18	258.2	6.7%
FY19	267.6	3.6%
FY20	278.1	3.9%

Source: RBI

The rise in prices of homes may be attributed to the demand-supply factors which were influenced also by an increase in access to credit. Banks have been growing their portfolio during this period and this was a period associated with a decline in interest rates. Mortgages by banks increased at a CAGR of 16.3% which helped in providing demand for housing.

By end FY15 the 1 year-MCLR was in the range of 9.5% and came down to 8.2% in March 2020 as shown in chart 1 below. The fall in interest rates and the focus of banks on retail lending with emphasis on home-loans did support the uptick in consumer demand as affordability of owing a house increased. However, growth in HPI moderated from FY18 which could be attributed to moderation in demand and the build-up of inventory in the market. Also, affordable housing measures announced by the government that caps the prices of housing properties could have indirectly influenced this moderation in the Housing Price Index.

Chart 1: Movement in 1 year MCLR



Source: RBI

In FY21, All India HPI increased from 278.1 in Q4-FY20 to 281.9 in Q3-FY21, a marginal growth of 1.4% as shown in the table below. On the demand side, consumer response contracted owing to Covid-19 restrictions and on the supply side, developers began offering promotional discounts in order to offload the excess unsold inventory which together led to a 1.4% rise only. It should be pointed out here that this was also the time when several retail borrowers which includes homes loans had gone in for a moratorium on debt service (41% in August for the entire system including banks and NBFCs) due to the challenging conditions.

Table 2: Quarterly movement of HPI

Period	All India HPI
Q4FY20	278.1
Q1FY21	281.4
Q2FY21	278.5
Q3FY21 (P)	281.9

Source: RBI
Note: P – Provisional data

How have housing prices moved in the global context?

Table 3 below represents the compound annual nominal growth rates for residential property prices across the globe for the period FY15 to FY20. These growth rates are based on the data from Bank for International Settlements (BIS) that collects and compiles such information from various countries.

Globally, the residential property prices grew at a CAGR of 4.6% and emerging economies recorded a growth of 4.8% while advanced economies registered an increase of 4.4%. Amongst individual country, the highest growth rate was registered by Germany at 6.4% followed by India at 5.6% while China and USA recorded growth rates of 5.3% and 5% respectively. Hence on a relative scale the Indian market did better than the global one.

Table 3: CAGR of residential property prices across categories

Category	CAGR (%)
World	4.6
Advanced Countries	4.4
Emerging Countries	4.8
Individual Countries:	
Germany	6.4
India	5.6
China	5.3
United States	5.0
Euro area	4.3
United Kingdom	4.0
South Africa	3.9
France	2.7
Japan	1.8
Russia	0.8
Brazil	0.2
Italy	-0.1

Source: National sources, BIS Residential Property Price database

City wise HPI

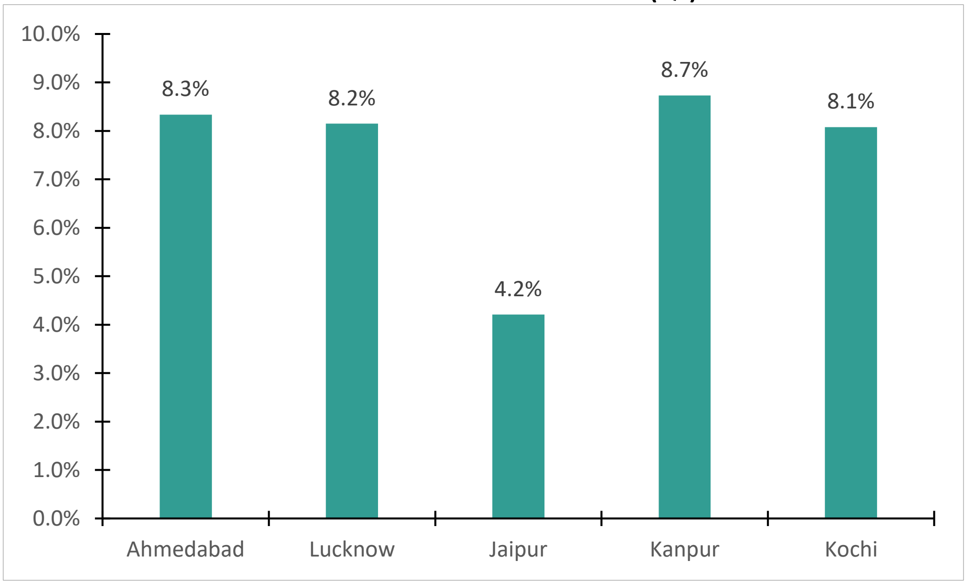
Charts 2 and 3 below indicate the compounded growth rate in metro and non-metro cities during the period FY15 to FY20 in Q4. Mumbai Metropolitan Region (MMR) is believed to be one of the most expensive regions in India in terms of property prices. However, in terms of increase in prices it came second to Chennai and was almost on par with Bengaluru. Delhi registered the lowest growth rate in prices of 2.3%.

Amongst non-metro cities, except Jaipur (4.2%), all other non-metro cities recorded growth rate between 8.1% to 8.7%. This growth of more than 8% could possibly be due to the increase in consumer demand in Tier 2 and 3 markets on the back of infrastructural improvements, growth of local businesses and affordable housing initiatives by the government among other factors.

Chart 2: CAGR for HPI for metro cities in FY15 to FY20 (Q4)

Note: Chennai Index is based on both residential and commercial properties

Chart 3: CAGR for HPI for non-metro cities in FY15 to FY20 (Q4)



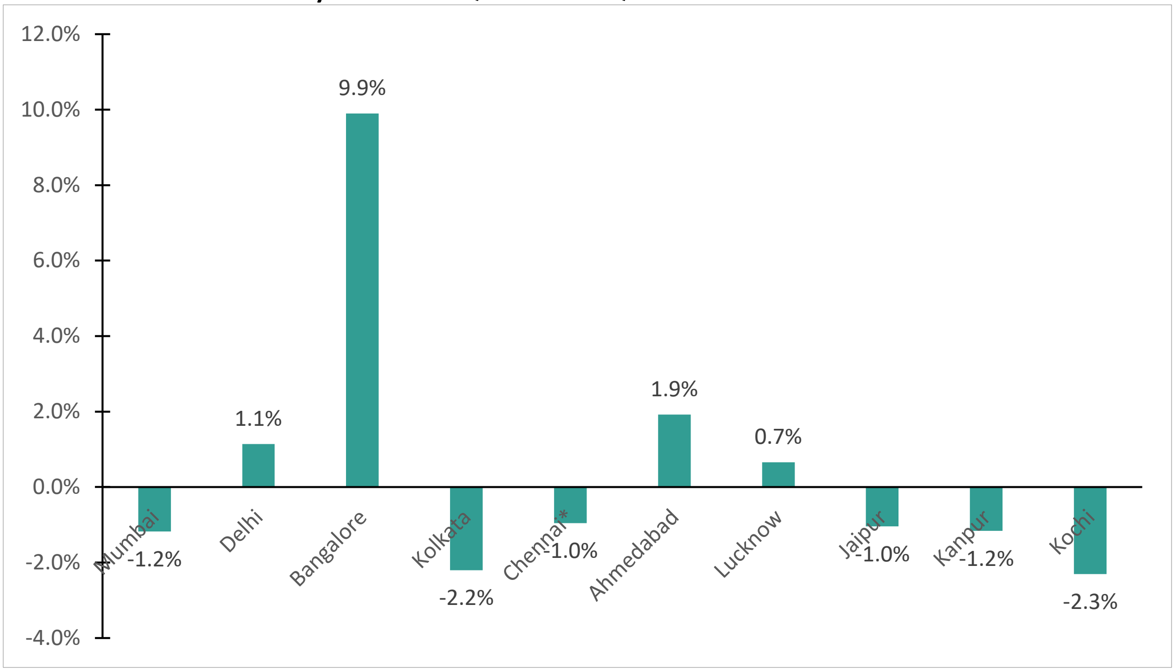
Source: RBI

The non-metro cities witnessed relatively higher increases in prices with Ahmedabad, Lucknow, Kanpur and Kochi witnessing an increase of above 8%. There has hence been an increase in demand for housing in these centres which have also become major business centres given the high cost in metro cities. Also, the migration of people from the rural hinterland to these cities has led to higher demand for housing which also gets reflected in these prices.

The FY21 picture is quite flat

In FY21, house prices more or less remained range bound due to contraction in demand on account of the widespread outbreak of Covid-19. In Q3FY21, HPI registered de-growth in the range of -2.3% to -1% in 6 out of the 10 major cities in comparison with the index in Q4FY20. The fall in consumer demand led to excess unsold inventory in the market. Further, in order to revive demand developers began offering heavy promotional discounts. This coupled with slew of government measures such as stamp duty rate cuts contributed to the decline in prices. Meanwhile, Bengaluru (9.9%), Delhi (1.1%), Ahmedabad (1.9%) and Lucknow (0.7%) recorded positive growth. Bengaluru continued to attract home buying as it remained relatively more open during the lockdown and the IT related companies continued to do well in terms of job creation even with the work from home norm setting in. This was one of the reasons for an increase in prices.

Chart 4: Growth rates for city wise HPI in Q3FY21 over Q4FY20



Source: RBI

Concluding Remarks

- The All India HPI at a CAGR of 5.6% during FY15 to FY20. This growth was in line with the CAGR growth of CPI for housing component during the same period. However, it was 1.1% lower than the CAGR growth rate in GDP.
- The growth in demand for housing was evidenced by high growth in credit by the banking system as well as lowering of interest rates. The 1-year MCLR declined from 9.5% in April 2016 to 8.2% in March 2020 which helped to lower the cost of borrowing. However, growth in HPI moderated from Q4 FY18 which could be attributed to a certain extent on excess supply of inventory in the market.
- Interestingly, India was a better performing market in the global context. Globally, the CAGR in residential property prices stood at 4.6% and Germany recorded the highest growth rate of 6.4% followed by India at 5.6%.
- The growth in city wise HPI varied across the 10 major metro and non-metro cities.
    - The non-metro cities tended to witness higher growth in housing prices compared with the metro cities with only Bengaluru being an exception.
- The outbreak of Covid-19 and the consequent imposition of restrictions impacted the consumer demand for real estate which in turn affected the movement in housing price index in FY21. Further, in order to revive demand, sellers offered heavy promotional discounts and governments also introduced varied measures to fuel the demand growth. The All India HPI to grow marginally by 1.4% between Q4-FY20 and Q3-FY21. During this period only 4 cities witnessed an increase – 2 metros and 2 non-metro cities.

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