Housing prices stay fairly flat at 2.7%, and growth to be in same range in FY22

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Housing prices appeared to be recovering in Q4 of FY21 as the economy emerged gradually from the pandemic. Growth of 2.7% in the RBI HPI looked like a stepping-stone in the upward direction as it rose from 1.1% in Q2 to 2.2% in Q3 of the year. However, the second wave that has come in April has disrupted the sector as it has affected livelihoods and spending power as well as diverted attention to health for majority of households. While there can be some pent-up demand emerging during the year, the impact on prices in FY22 would tend to be moderated.

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 based on official data of property prices received from registration authorities of respective state governments. The yearly growth in All India HPI and city wise HPI in Q4-FY21 is analysed below based on the provisional data for Q4-FY21 released by RBI.

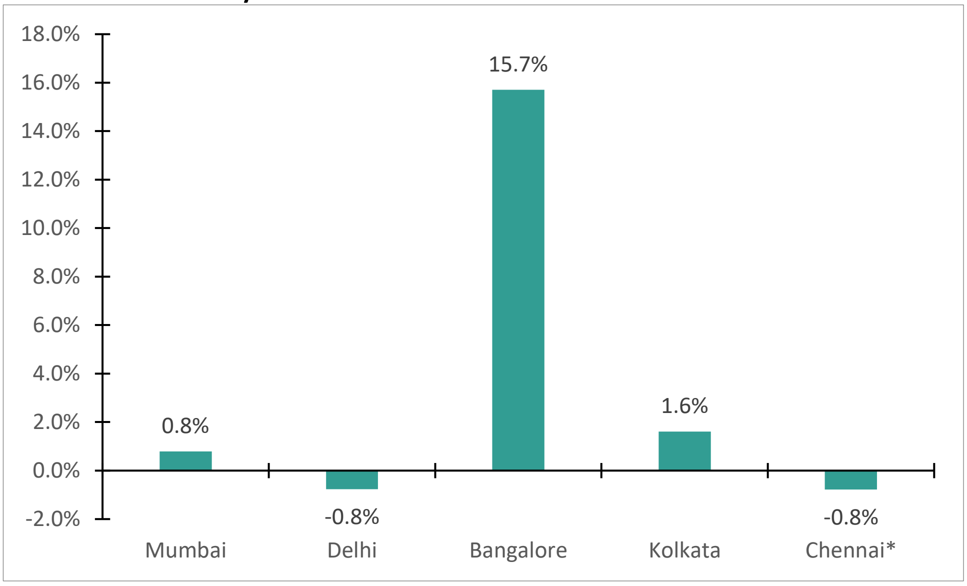
The All India HPI moved at a rate of 2.7% y-o-y in Q4-FY21 to 285.1 in comparison with an index of 278.1 in Q4-FY20. This was lower than CPI inflation of 4.9% in Q4-FY21 (urban inflation was 5.9% for this quarter). The 1-year MCLR moved from 8.2% in March 2020 to 7.3% in March 2021.

The RBI-HPI shows an interesting trend of continuous decline in growth rate of housing prices from FY15 which witnessed an increase of 16.1%. Growth rate came down to 3.4% in FY19 and further to 2.2% in FY20.

City wise HPI in Q4

In metro cities, the highest growth was recorded in Bangalore at the rate of 15.7% followed by a 1.6% rise in Kolkata. The growth recorded in Bangalore, which is known to be an end user driven market, seems to be largely on account of the growth in work-from-home culture. While Mumbai Metropolitan Area (MMR) is estimated to be the most expensive with regards to property prices, it registered a growth rate of 0.8% only. This could be due higher inventory of housing property amidst limited demand. Meanwhile, Delhi and Chennai de-grew at the rate of 0.8% each.

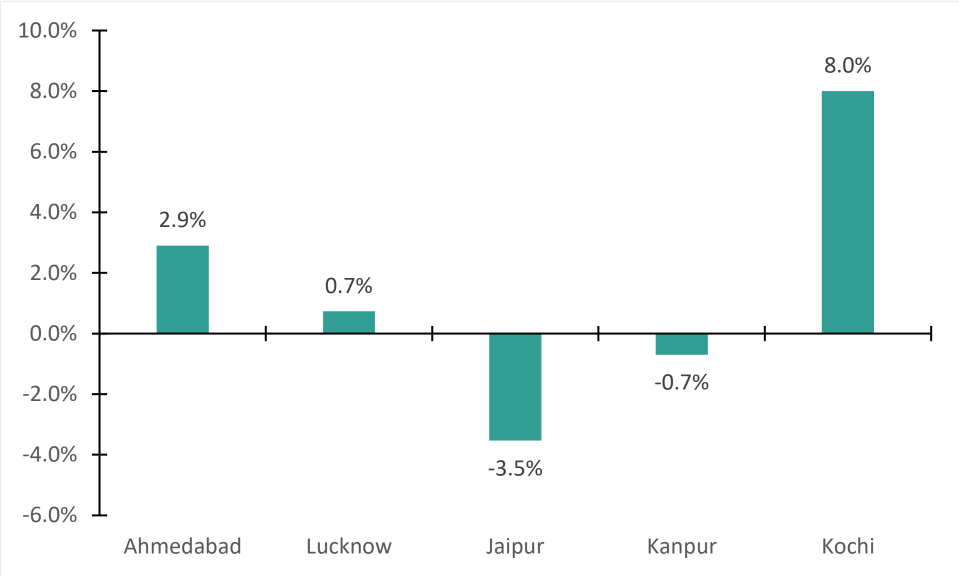
Chart 1: Growth in city-wise HPI in metro cities



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

Amongst non-metro cities, the growth in index varied from an 8% increase in Kochi to a de-growth of 3.5% in Jaipur as shown in chart 2 below. Non-metro cities (except for Kochi) recorded limited growth in HPI in the range of -3.5% to 2.9%.

Chart 2: Growth in city-wise HPI in non-metro cities



Source: RBI

Concluding Remarks

- The All India HPI grew at a rate of 2.7% on a yearly basis in Q4-FY21. The growth in city wise HPI ranged from 15.7% growth in Bangalore to 3.5% de-growth in Jaipur backed by increase in demand for housing properties as consumer demand in specific locations gained traction with the ease in Covid-19 induced restrictions.
- Going forward, the movement in HPI would be influenced by demand side factors as well as inventory levels. Reliefs provided on the supply side like stamp duty or other facilities by the government for the real estate sector as part of the Atmanirbhar package will also influence the prices to an extent. But more importantly the cost factor will weigh heavily on this sector.
- The pandemic has impacted the livelihoods of several households in terms of expenditure incurred on treatment as well as preventive medication. Focus on savings rather than investing in big ticket property will work towards moderating demand. There was already an overhang of debt burden in terms of the moratorium that was provided last year. Therefore, it would be interesting to see how demand plays out, especially in the mid-segment. The higher end prices are relatively less influenced by these generic factors while the affordable segment at the lower end have their thresholds.
- A concern here is the spike in global commodity prices which has been witnessed even in India. Cost of construction has gone up as steel, cement, copper, aluminium products, sanitary ware etc have been increasing. This will tend to put pressure on the cost of the project which can pressurize prices. The real estate sector must work towards this cost transmission which will not be easy when demand conditions are low.
- Therefore, there are countering factors at work and our expectation is that for the year, the ability of the sector to push prices beyond 2-3% may not be possible. This too will not be evenly spread across cities and the larger cities like Mumbai, Delhi, Kolkata and Chennai could remain relatively flat with virtually no growth.

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