

Affordability in Housing Markets in India: An Overview

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ABSTRACT

The property prices in India have been very high, making a purchase of real estate beyond the reach of a middle class family. The purpose of the study is to analyze the affordability index. Every consumer durable goods become affordable over time, however the real estate prices have bucked the trend.

The study attempts a comparison of income levels, real estate prices and stock indices with respect to CAGR from year 2000 to 2017. Analysis reveals the income levels are lower than the housing prices, making housing unaffordable. Changes in the asset prices have effect on the household wealth and on the overall financial stability in case of a sudden downturn. All other consumable goods have become affordable over the time. Post demonetization, GST and RERA the housing markets have dynamics changed, affordability is likely to be ensured.

INTRODUCTION

Real estate in India is considered as an important asset class. Investment in the real estate is viewed as a personal wealth, as it enables easy access to credit and collateral. However in the recent times real estates in India are overpriced. If the property markets were to function as efficiently as the stock market, real estate prices would have crashed however the property prices in India shows an uptick. The fundamental reasons why sky rocketing property prices have to fall is because the prices are no longer affordable to the vast majority of the Indian middle class population. The market for real estate is driven by the speculative buyers, investors and not by the genuine buyers.

In any growing economy when goods become affordable the consumers can access the market and consumption can grow. The affordability has been seen with respect to electronic goods like TV, refrigerators, air conditioners, laptops etc. However, in the case of real estate the prices are expensive, unaffordable and to a large extent out of reach of middle class population.

The rapid growth in the housing market has raised concerns about its sustainability. If the house prices are not aligned with the fundamentals they can threaten the economic and financial stability of the country, apparently seen at the times of subprime market crisis in the US in 2007- 2008.

In any growing economy prices go up due to inflationary pressures, but the assets prices get affordable with times. The objective of this paper is to point out the aberrations in the real estate price movement v/s other consumable assets. However the real estate has bucked the trend.

The paper has been divided into four sections. Section I is on Housing Markets in India: An Economic Perspective. Section II Empirical findings, Section III Empirical Results and section IV Recent Trends in Housing Market in India.

HOUSING MARKETS IN INDIA: AN ECONOMIC PERSPECTIVE

In a country with vast population, the demand for housing for all will always continue to grow. However the concern regarding the housing markets in India is the unaffordability of house prices by a large section of population. The sharp growth in the housing prices has been an area of concern for the policy makers in the context of macroeconomic and financial stability. Any distress in housing asset prices can destabilize the economy and can considerably reduce consumer spending and overall household wealth.

The recent surge in the housing prices from 2000- 2017 has increased the overall household debt levels. It is quite evident that housing loans are being availed by buyers' in view of larger capital appreciation in near future. Due to rising price levels, Real estate is considered as an investment avenue and an attractive asset class. According to the "Trends and Progress of Banking Report 2016-17" housing loans accounts for more than half of the total retail loan portfolio of the banks.

The rapid growth in the housing loan market has been supported by rising job opportunities, emphasis on balanced regional development in each successive five year plan, favourable demographic structure and rising disposable income of the middle class population. Further, income tax advantage and fall interest rates on housing loans also makes housing as an attractive asset class. FDI in real estate has also provided a boost to housing sector in India.

The recent surge in the housing prices raises doubts on its sustainability. Are the housing prices in tune with the economic fundamentals of demand and supply? Are the housing prices driven by speculative investment? Are income levels rising in tandem with the housing prices? The question on affordability of housing is a matter of concern for every policy makers (H. Joshi 2006). Affordability index of housing is calculated as the ratio of property prices to income levels. Higher the affordability index is an area of concern from the point of view of financial stability.

EMPIRICAL FRAMEWORK

The empirical research on housing market in India is scarce due to paucity of information. There are number of factors which are responsible to study the overall health of the housing market in India. It includes data on housing prices, growth in income levels, housing credit etc. Due to unavailability of the requisite housing data from secondary sources for the year 2000- 2017, the study explores the relationship of housing prices and income levels using primary sources.

The data on housing prices is based on information provided by the house owners of prominent sub urban locations of Goa. House prices considered in the study are based on the valuations of 2 BHK home.

In India, a house is the single largest investment in an individual's investment portfolio. Being a largest investment, houses are generally purchased on joint ownership. However for the simplicity purpose, only individual's income is considered. The data to measure the income levels of an individual is based on the starting salary drawn by regular college teachers with UGC pay scale.

Affordability index is calculated by dividing the asset prices with income levels. The study makes a comparison of affordability of property prices with consumer goods. For the data on consumer goods, the lowest market value of popularly sold new four-wheeler is considered

Table 2 Affordability Index

Year Table1	Annual income	Real estate prices (2BHK) (Rs)	Consumer goods (Rs)	Affordability index of Real Estate	Affordability index of Consumer Goods
1995	60,000	2,50,000	1,50,000	4.17	2.50
2000	1,44,000	6,00,000	2,00,000	4.17	1.39
2006	2,40,000	8,00,000	2,55,000	3.33	1.06
2010	4,62,240	40,00,000	3,00,000	8.65	0.65
2015	5,40,000	42,00,000	3,20,000	6.06	0.59
2017	6,92,400	45,00,000	3,30,000	6.50	0.48

Table 2 reveals the affordability index of real estate v/s consumer goods. The affordability index of the consumer goods shows a decreasing trend. This perfectly supports the argument of economies of scale. As the productivity improves it leads to mass production and prices fall down which in turn promotes affordability. For every consumer goods the prices have become affordable over time. It has been the case with laptops, refrigerators, automobile, mobiles etc.

However, the real estate prices have bucked the trend of affordability. The affordability index in respect of real estate is on a very higher side.

Although the two commodities are not directly comparable, as land has a fixed supply. It is not imported or exported. It is not a tradable asset.

RECENT TRENDS IN HOUSING MARKET IN INDIA

The housing market in India has gone through hard times post demonetization as large part of the real estate was fueled by the black money. Post demonetization the demand for real estate has dampened. With the enactment of GST and RERA

EMPIRICAL RESULTS

Table 1: Compounded Annual Growth Rate (CAGR)

Year	Income (monthly salary) (Rs)	Real estate prices (2BHK) (Rs)	BSE Sensex (Rs)	BSE Realty Index (RS)
2000	12,000	6,00,000	3,972.12	----
2006	20,000	8,00,000	13,786.91	12,727.42
2010	38,520	40,00,000	20,509.09	2,856.22
2015	45,000	42,00,000	26,117.54	1,344.33
2017	57,700	45,00,000	34,056.83	2,608.25
CAGR	9.12%	11.84%	12.68%	- (12.37%)

It is clearly evident from table 1 that CAGR of salary income is 9.12% whereas the CAGR of real estate property prices is 11.84%. The notable feature is the mismatch between the earnings growth rate and property prices growth rate. The property prices in not moving in tandem with income levels and this can be associated as the unaffordability in the real estate market.

Comparison of the CAGR of the real estate prices with the BSE Sensex clearly shows that the stock markets have outperformed the real estate markets in India.

Comparison of CAGR of the real estate prices with the BSE realty index shows a conflicting trend. BSE realty which captures the health of the real estate companies has given negative CAGR from 2006 to 2017. The concerning question is why have the realty index fallen when house price is on a rise?

the dynamics of the housing sector has undergone a drastic change.

The sluggish sale has piled up the inventory of unsold housing stock. The BSE realty stocks have taken a heavy beating and the developers are reporting mounting losses. Higher debt levels in real estate companies puts banking sector into more vulnerable position.

For financial stability and for growth of an economy, affordability of housing is essential. The surge in housing prices puts greater pressure on the financial institutions. Need of the hour is the required correction in housing prices as this can promote better affordability.

CONCLUSION

The findings suggest the mismatch of earnings with prices. The CAGR of income level is lower than real estate. However, Real Estate is an illiquid investment. It is a basic necessity for any human existence. As long as the affordability in the real estate sector does not improve the real estate sector would

continue to remain flat. This can further affect the overall wealth, consumption, employment and aggregate demand.

The Government of India initiatives of “Housing for All By 2022”, promotion of smart cities and development in hinterland

can change the housing price dynamics. Besides, financial literacy needs to be promoted rather than the focus only on conventional mode of investments.

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