Rediscovering Affordability
Housing is among the most persistent challenges faced by successful urban centres across the globe today. These urban centres need a consistent supply of workforce to fuel their economic enterprise and appropriate housing supply is invariably inadequate either in terms of volume, quality or location. This disparity causes house prices to increase disproportionately compared to income levels and unaffordability to set in. To understand the scale of the affordability challenge across the world, a Global Affordability Monitor has been pioneered by Knight Frank to assess 32 frontline cities around the world and to consider their relative positions using 3 critical parameters:

- House price to household income ratio
- Rent as a proportion of income
- Real house price growth compared to real income growth

Based on these parameters, the 32 cities have been placed in 4 equal baskets of 8 cities that depict decreasing levels of affordability and Mumbai is placed in the second most affordable basket.

Interestingly, Mumbai is well considered to be the most unaffordable city in India. The Knight Frank India Affordability Benchmark that is a ratio of the average house prices to household incomes of the top 8 Indian cities also corroborates this view. With the average house price at approximately 7 times the average household income, Mumbai is the least affordable Indian city currently.

Mumbai is placed in the second most affordable basket
Affordability in the Indian context

India is among the world’s fastest growing economies and has seen rapid growth in the urban centres that form its economic engine. Employment and business prospects in these economic hubs have always attracted large numbers of people looking for upward mobility in their lives. This economic development and resulting growth in incomes led to a rising appetite for lifestyle products that marked the increasing aspirations of a prospering population.

For the average Indian, acquiring a home represents a firm foundation for the future, as well as a validation of achievement and social stature that nothing else quite compares to. This has primarily ensured that residential real estate is the most coveted asset that has historically largely only seen demand and consequently prices, rising. This belief was reinforced in the first decade of this millennium as prices continued to spiral, fuelled by a frenzy of lifestyle developments aimed at the increasingly demanding homebuyer. While per square foot prices rose, the spurt in ticket-sizes of apartments was only more pronounced as developers heavily bet on increasingly larger units that were the order of the day. The average house price to income ratio was as high as 11 in the Mumbai Metropolitan Region (MMR) at the close of that decade, which meant that a family had to shell out 11 times its annual earnings for an apartment in Mumbai. This ratio was similarly high at 6 and 5.6 times for the National Capital Region (NCR) and Bengaluru, respectively.

Index of residential price growth across most cities lags consumer price inflation

There is only so far that a rubber-band can be stretched before the yield point is reached and somewhere amidst this ever-expanding scenario, the demand began to contract. Annual apartment sales that peaked in 2011 had plummeted 38% until 2017, while heavily leveraged developers were left with record unsold inventory levels, with few takers. Developers were forced to dole out freebies and discounts; and eventually compromise on prices, especially over the past 2 years, hoping to entice the buyer and move inventory. The establishment of the RERA regulator has only accentuated their need to stick to construction timelines. To aggravate matters further, a continuously deteriorating funding environment left them with few alternatives, but to reduce prices even more to push sales. The strategy reaped dividends as the market saw annual sales volumes finally grow over the previous year in 2018, which was incidentally the first time in 7 years.
Average unit sizes of housing stock falls across most cities

Source: Knight Frank Research

Plummeting sales recover in 2018

Source: Knight Frank Research

Regulatory interventions by the government

While the fall in prices have had a major role to play in the improvement in affordability of residential real estate, structural reforms undertaken by the government to address serious credibility issues in the real estate industry have also played a significant role. Starting with Benami Transactions (Prohibition) Amendment Act, 2016 and demonetisation of high value currencies, coupled with measures of integrated indirect tax structure brought by the Goods and Services Tax (GST) and the unified realty sector regulator, Real Estate (Regulation and Development) Act, 2016 (RERA) have been significant landmarks, which have transformed the DNA of the country’s real estate industry that was characteristically mired by opacity. Together, while these measures have created much-desired and long-awaited reforms in the industry, the intent is clearly to balance the scales with consumers becoming paramount in the overall transaction process.

The government’s unwavering focus on affordable housing has also been a major driver in reducing prices of residential units and increasing affordability. The government’s flagship ‘Housing for All by 2022’ programme with measures such as the Credit Linked Subsidy Scheme, preferential tax rates for affordable homes and the granting of infrastructure status to affordable housing projects are aimed at achieving the objectives.
Impact on Affordability

The reducing prices, ticket sizes and the focus on affordable housing have improved home affordability across the country to a large extent. The fact that affordability statistics have moved dramatically since 2010 explains a large part of the reason why sales have finally improved in 2018. The spectrum of affordability in the top 8 cities is an interesting one, and even more so when compared over the period of 2010 to 2018.

House price to income ratio

Note 1: Knight Frank Affordability Benchmark is 4.5 times the average household income
Note 2: City-wide average affordability statistics are useful but they cannot highlight disparities in housing costs within sub-markets or across the income spectrum
It must be noted that while the city-wide average affordability statistics are useful, they are still inadequate to highlight disparities in housing costs within sub-markets or across the income spectrum. The average apartment in the MMR now costs 7 times the average household income as compared to 11 times in 2010. All Indian urban agglomerations, such as the NCR, Bengaluru, Pune, Chennai, Hyderabad, Kolkata and Ahmedabad, have seen affordability levels improve since 2010. Kolkata, Ahmedabad and Pune are the most improved markets in terms of affordability since 2010 and apartment prices here stand at just 3 times of their average household incomes.

While the affordability levels have improved across markets over this decade, it is critical to assess the extent of its improvement compared to a reasonable benchmark. The Knight Frank Affordability Benchmark, which is 4.5 times the average annual household income of a city, is considered to be a reasonable benchmark of affordability and Bengaluru, Chennai, Pune, Ahmedabad and Kolkata have already made it to this point. However, Mumbai, NCR and Hyderabad are yet to make it and it remains to be seen how soon these markets will toe the line and achieve affordability. The world has been undergoing a shift in housing needs and the demand is clearly drifting from premium to affordable. The Indian residential market is following the same trend.