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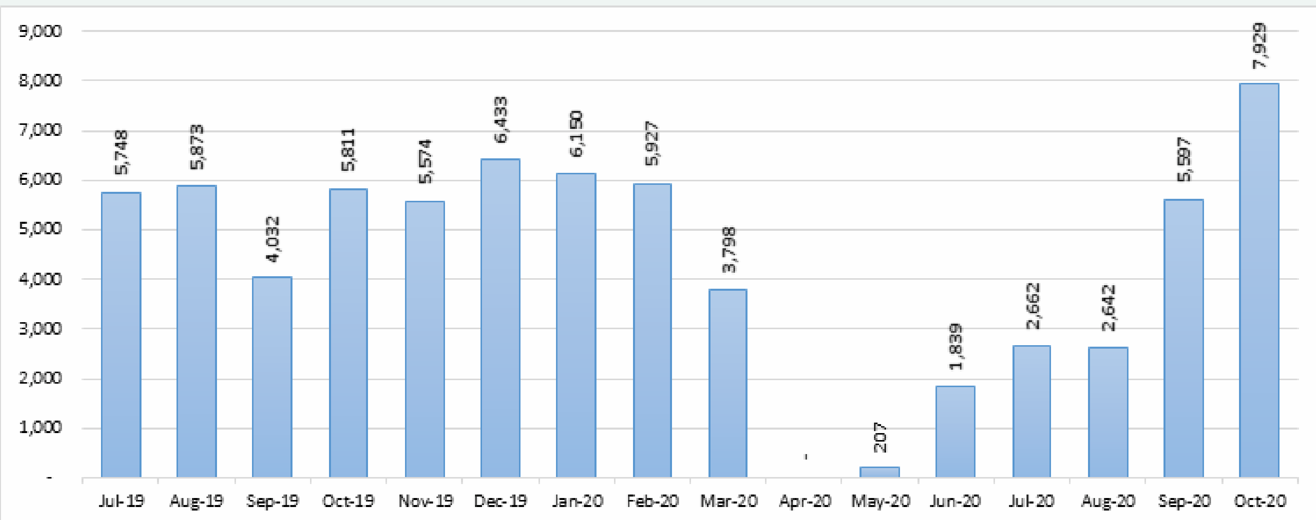
Mumbai: Home sales rise sharply in October 2020

A myriad of measures which the industry stakeholders have been demanding for the past few years to revive residential sales played out simultaneously in the post lockdown era, resulting in a strong bounce back in residential sales in Mumbai (BMC region i.e. Churchgate to Dahisar and CST to Mulund).

Chart 1:
Number of sale documents registered in Mumbai



Source: Department of registration and stamps, Govt. of Maharashtra, Knight Frank Research
Note: Data includes secondary transactions

At 7,929 units registered in October 2020, the residential sector of Mumbai recorded the highest ever registrations in October over the last 8 years. Registrations jumped by a whopping 42% month-on-month (MoM) and 36% year-on-year (YoY), boosted by a stamp duty cut and the festive mood of Navratri and Dussehra. This growth comes after a significant jump of 112% MoM and 39% YoY during September 2020.

During the same period last year i.e. in October 2019, registrations had grown 44% MoM compared to the previous month, highlighting the demand during the festive period every year. However, it is noteworthy that this year, despite the pandemic impact, sales grew by almost the similar proportion. A number of factors were responsible for this growth in the pandemic era of 2020:

Stamp duty cut

The Government of Maharashtra reduced stamp duty rate from 5% to 2% for the period from September 1st 2020 till December 31st 2020 and to 3% until March 31st 2021 to counter the adverse impact of the pandemic on the ailing residential real estate market of Mumbai.

Reduction in home loan rates

The Reserve Bank of India (RBI) cut the policy interest rates by over 120 bps in year-to-date (YTD) 2020. This reduction to policy interest rates to a historic low was done not only to counter the slowdown in India's economic growth but also to resuscitate the demand post lockdown. This reduction, coupled with humongous liquidity infusions by RBI, helped banks bring down the home loan rates to historic lows which has helped augment the homebuyer's loan eligibility by ~10%.

Creating an upgrade demand

The lockdown confined people to their homes and made them enter an entirely new universe where the office, school/college and regular household activities amalgamated within the boundaries of their homes. The compact homes of Mumbai and the joint family culture of India only added chaos to this universe.

As the initial lockdown of 21 days in Mumbai extended to nearly 6 months in the form of partial lockdowns, families felt the need for larger apartments, thereby creating a fresh demand for upgrades which may not have been a necessity earlier. Further, households whose incomes were not affected by the pandemic received a savings boost, as expenses relating to lifestyle, travel, vacations, dining out, entertainment and expenses on support staff, declined due to the extended lockdown. This also helped to improve their ability to make down payments.

Release of pent up demand

The city was under a stringent lockdown from March 26th 2020 till June 2020. The fear of pandemic kept people from moving out and residential sales and site visits came to a near standstill. After reopening (unlocking) in the second week of June 2020, certain parts of the city went into a second lockdown in July due to a spike in Covid-19 cases. Consequently, almost three to four months of demand got bottled up.

Developers do their bit to entice homebuyers

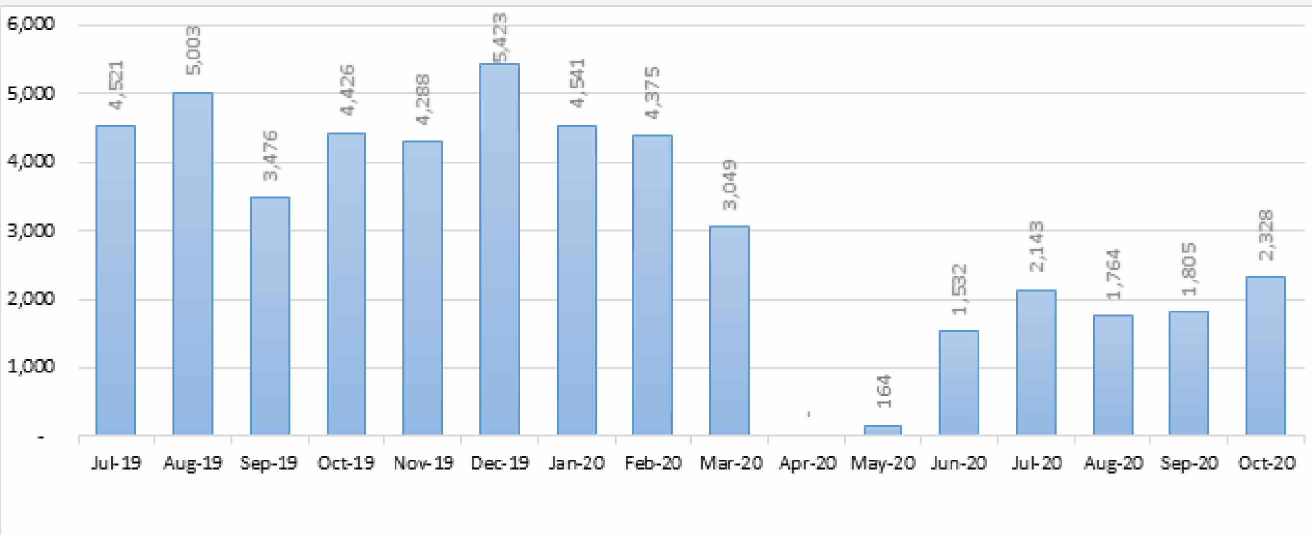
To bring homebuyers back into the market, many developers in Mumbai agreed to bear the incidence of stamp duty. In addition, developers continued to offer a host of indirect discounts such as floor rise waivers, deferred payment plans, assured rentals, GST waiver, cashbacks, EMI waivers, gifts, gold coins, free parking, etc. to bring down the price of apartments and entice homebuyers.

Fence sitters

The aspiration amongst people in India to own a house has always run high. However, high apartment prices in Mumbai has kept a segment of such serious homebuyers away. This segment had actively scouted for property over the last few years, but had held up purchase in anticipation of price cuts from the ailing sector. Enticed by factors that suddenly started working in their favour, the fence sitters now entered the market.

All of the above factors culminated with the festive period, resulting in strong growth of registrations during September-October 2020. Buoyed by the festive season mood, stamp duty cut and recovery in the economy, this upwards momentum in sales is likely to continue. As income streams return to normal, more homebuyers will try to close transactions in the next few months to benefit from the lower stamp duty rate.

Chart 2:
Government collections from stamp duty in Mumbai (INR million)



Source: Department of registration and stamps, Govt. of Maharashtra, Knight Frank Research

It is important to note that despite a stamp duty cut in Sep 2020, the state government's revenue collection from stamp duty increased in Oct 2020 to INR 2,328 million compared to INR 1,764 million in Aug 2020. This shows that the boost to housing sales more than compensated for lower duty and actually benefitted the state government in terms of revenue collections. Thus, the reduction in stamp duty has had an overall positive impact on the residential sector in Mumbai working in favour of homebuyers, developers as well as the Government.

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