

# Have Mumbai realty prices risen too fast?

The stock response to a question on housing prices in Mumbai is that they have become unaffordable. The general feeling is that they have risen too far, too fast. Fingers are pointed to the vast number of unsold apartments and everybody wonders how builders can afford to keep these flats vacant for months. But have real estate prices in Mumbai really gone up so dramatically?

The Reserve Bank of India's (RBI) report on macroeconomic and monetary developments has, in its chapter on financial markets, a chart on the house price index in Mumbai. The chart gives the index weighted by the value of transactions and the number of transactions. It shows that the Mumbai house price index reached a peak of around 230 or so in the second quarter of 2008 before starting to plunge. The index then fell to a low of slightly above 150 in the

fourth quarter of 2008 before starting to climb again. By the second quarter of 2009, it had exceeded its pre-crisis highs and by the fourth quarter of 2009, it had gone a bit higher than 250. The chart has data from the second quarter of 2003, when the value of the index was 100. Putting it another way, if RBI's index for Mumbai is right, then it means property prices in the city have, on average, gone up by a bit more than 2.5 times between 2003 and the end of 2009. But the gross domestic product (GDP) at factor cost at current prices has, between 2003-04 and 2009-10, gone up 2.3 times. And if India's GDP has gone up by 2.3 times over the period, GDP of Mumbai city must have increased by a far larger factor. Add to that Mumbai's island location, which makes expansion difficult and the rise in real estate prices does not seem too steep.

## REALTY SURGE

Mumbai's house price index.



Why then do we have the feeling that Mumbai real estate is too pricey? The answer may lie in the fact that the RBI index moved up beyond 150 only in the third quarter of 2007. So it moved up 50 points in four years and more than 100 points in the next two years—that's the reason for the perception of prices having gone up too much. But as RBI's data show, the number of transactions has been going up sharply since the

second quarter of 2008. But perhaps the rising prices should be correlated not with GDP, but with market performance. The report says: "There has been a general upward pressure on housing prices in the period, which broadly coincides with the rise in stock prices." Or, of course, there is something wrong with the market.

Write to us at [marktmarket@livemint.com](mailto:marktmarket@livemint.com)