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'Low, benign inflation signals revival in housing demand'

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The common industry perception that an increase in capital values fuels housing demand is a misconception. It is affordability that plays an important role in demand for housing. The synergies between housing demand with housing affordability across the top seven Indian cities (factoring in the difference between annual per-capita income growth and growth of residential prices,) indicate a reasonably strong correlation.

As the observation suggests, at any point in time when housing affordability increased, buyer demand also grew with a time lag of between 12-18 months. However, an exception to this relationship has been observed in recent years (2013-2015), possibly owing to the following factors:

Prior to the general elections of 2014, high uncertainty over real-estate market growth led to a near collapse of investment demand and a weak consumer sentiment. This scenario has changed completely now, with India once again proving to be a good investment destination and real estate attracting an increasing share of the overall global capital flows into India

Post the 2014 election, a consistent push from the newly elected government to increase supply of affordable home probably made consumers believe that prices may fall. Developers have now realised that the time for launching houses at affordable price points is upon them, and they are going to considerable lengths to do so.

Individual purchasing power has improved over the last few years, with incomes rising faster than housing prices. Also, home-



Realty firms are attracting a growing share of overall global capital inflows into India.

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buyer confidence is now set to increase on the back of several sentiment-building measures.

For instance, the nation-wide rollout of the Real Estate Regulatory Act or RERA towards mid 2017.

Courts delivering a series of

consumer-favouring verdicts, indicating that buyers can now rely on the judicial system. Trust deficit will reduce over the next 4-5 quarters. Continued discounts and schemes from developers to increase affordability, and decreasing information asymmetry in the real estate sector. Simultaneously, reducing inflation will also infuse confidence in potential home buyers.

In fact, inflation - or the consumer price index - has a major influence on people's decision to borrow for a house purchase.

Inflation rate also has a strong influence on consumers' confidence in the economy, and their own financial stability.

There exists a strong inverse

relationship (correlation of 82%) between the inflation rate and growth in home loans. The lag between the inflation and home loan growth is almost negligible.

Guidance from RBI forecaster surveys and other market analysts suggests that inflation will remain range-bound at 4-6%, within the comfort zone of the Central Bank. The latest inflation data may have shown a spike, but it is still expected to remain range-bound within a comfortable zone. In the near term, the environment is conducive for housing to revive.

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