



THOSE 80,000 FLATS UNSOLD

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Prices remain stubbornly high, since speculators prefer to wait out till next boom phase.

The onset of rains, and the end of a hot summer, means no more alphonso mangoes. During peak season those mangoes fetch 1,000 rupees for a dozen. But at first sign of rain, their market value drops to less than 200.

The same is true of onions. When there is onion shortage, prices shoot up to maybe 100 rupees a kilo, and post harvest, typically in January when there's a glut, prices crash to less than 5 rupees. In the wholesale marketyard of Lasalgaon, Asia's biggest onion market, there have been farmers' riots due to onion glut.

Onions and mangoes signify the extremes of price variations, but those price movements also illustrate the law of supply and demand. When there is excess supply prices have to drop. Sounds almost like a tautology.

Why does this law not apply to housing? A simple answer is that fruits and vegetables are perishables, hence their value declines rapidly. Even a toothpaste or a mobile phone has finite shelf life. If there is a glut, prices will fall sooner or later. A glut in houses however seems to defy the law of demand.

A report by real estate consultant Knight Frank revealed this week that Mumbai has more than 80,000 flats lying

unsold. This is in addition to maybe another 50 to 100 thousand flats which are vacant, but not available for sale.

The value of the unsold inventory is a staggering 1 trillion rupees. (This figure is also roughly equal to the entire annual income of all Mumbaikars). The average price of those 80,000 flats is Rs 1.2 crore. That's hundred times the income of an average Mumbaikar. A flat is affordable to those, whose annual income is at least 20 to 25% of its price.

How many Mumbaikars earn more than 30 lakh rupees annually? This is a tiny number, and most of them already own flats. So then who will buy those 80,000 unsold flats? Speculators from Hong Kong, Dubai or Singapore?

If speculators bought, would they rent those flats? Not really, because there is already a glut of flats available for rents of about 40,000 to 50,000 rupees a month. Rentals are falling. So speculators prefer to simply buy and wait, till prices zoom up again, so that they can sell and encash a profit.

That unsold stock of 80,000 is not deterring developers from launching new housing schemes. But the pace has slowed down. Knight Frank says that new launches are down by 60% during 2012. Unless the old unsold inventory is "liquidated", there won't be too many new launches.

But there is never any distress sale, like mangoes or onions. Prices are not falling, even though there is always talk of a "price correction". Banks, developers and house owners hate to see a price drop. Only would-be buyers rejoice. Buyers think that if they wait some more, the distress pressure would rise.

There is thus a waiting game, a tug of war between inventory holders and would be buyers (including speculators). In the meantime the city has an ironic coexistence of unsold flats and homeless willing buyers.

The twain don't meet because the buyers' pockets are not deep enough for the listed price of those unsold flats. Besides banks are unwilling to provide new home finance, since they may have to take a loss on earlier home loans. Meanwhile interest rates remain stubbornly high due to overall inflation. The money locked up in housing property is patient. It can easily hold twice the unsold inventory.

As money becomes cheap worldwide (near zero interest rates), it might choose to rush into Mumbai and buy some property. So don't hold your breath for a steep price fall. Those homes are not mangoes.





CROWDSOURCING MUMBAI PLAN

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The date 12/12/12 proved to be a significant one in the history of the Municipal Corporation of Greater Mumbai (MCGM). For the first time, the Corporation has put in the public domain the mid-term work toward the Development Plan (DP) for the city. It has asked the people of Mumbai to comment on the existing land use (ELU) of the city.

The MCGM and its chief deserve kudos for initiating this participative process. The ELU maps are on the MCGM website and will also be put up in each of the 24 ward offices. The people of Mumbai have about one month to submit their comments. First some background.

The Maharashtra Regional Town Planning Act requires that each municipal corporation prepare a development plan (DP) which is applicable for a 20-year period. Since the formation of the state, this exercise has been undertaken only twice.

The first one started in 1961. The second DP process started in 1981 but could not be finalised and adopted until 1994. That DP expires in 2014, and a revised DP has to be ready in less than 18 months. Unlike the last two DP's, this one has been opened up for public participation and scrutiny.

Thanks to the tireless work of several citizens' organizations like the Urban Development Research Institute,

Citispace, YUVA, Praja, AGNI, many ward and area level NGO's, and indeed many other organizations, there is great awareness about the DP. It is for all citizens to examine the ELU, and cross check it with the actual ground reality in their neighbourhood. If the ELU denotes an area as an open space, but in fact is not, then quick action must be taken.

The Commissioner cannot take refuge in any excuse of a "printing mistake"! The ELU establishes base line. It will determine the actual DP. For instance, if it does not acknowledge the de facto area of slums, or acknowledge areas covered by hawkers and encroachers, then citizens have a chance to correct this.

This exercise is a first among all metro cities of India. Some caveats are in order. The existing ELU indeed has many deficiencies, which have been pointed out to the MCGM by UDRI and others. The ELU plan does not indicate the presence of hawkers or congregations of naka workers. The slum areas are not covered by DP and will be covered by a separate planning authority.

There are some defects in the areas earmarked for sewage treatment and pumping. The total area of Greater Mumbai as indicated by the ELU, is bigger than the official statistics (officially the area of Greater Mumbai is 437 sq kms). But more importantly, we must remember that even if the

land use is correctly mapped, and a DP is formulated on the most scientific principles, it still does not guarantee the actual "development" of the city.

Most economic and infrastructure development will happen dynamically, with large private sector investment only, and continuously changing land values. The commuting and traffic pattern as well as shifting business districts, cannot be and are not supposed to be predicted by the DP.

The Metro, Mono-rail, trans harbour link, new multiplexes or the new airport are not explicitly given in the DP. But land use restrictions will be only indicated. If, however, these are not respected, then Mumbai in 2034 will look totally unlike what its citizens imagined and jointly planned in 2014.

This is exactly what happened between 1994 and now. Today's city has no correlation with the earlier DP. Hence our vigilance does not end with simply commenting on the ELU. It only begins now.