

Real Estate/ Housing Price Index

5.29 Housing and real estate constitute not only a major proportion of national wealth but also an important and fast expanding component of the service sector of the economy. Because both lenders and borrowers may have large real estate/housing exposures (direct as well as indirect), financial balance sheets may be affected by any large

volatility of prices in this sector. Thus, it is desirable to monitor housing and real estate prices – an important segment of asset prices – for formulation of appropriate monetary and fiscal measures. The National Housing Bank (NHB) has set up a Technical Advisory Group (TAG) to explore the possibility of constructing a real estate price index (Box 5.3).

Box 5.3 : An operational housing price index (HPI) for India

- There are various concepts of housing price indices, and many sources and ways for compiling price data, both private and public. The methodology for construction of indices differs from country to country depending on the use and purpose of such indices and the availability of data.
- With an Adviser, Ministry of Finance as the Chairman, the Technical Advisory Group (TAG) comprises of technical experts and members from NHB, CSO, RBI, Labour Bureau, HDFC, HUDCO, LIC Housing Finance Ltd., Dewan Housing Finance Corporation Ltd., and the Society for Development Studies.
- After reviewing international best practices and the methodology, sampling techniques, collection of price data for construction of real estate price indices in USA (index developed by the Office of Federal Housing Enterprise Oversight), Canada (New Housing Price Index) and UK (Halifax index), the TAG has suggested a methodology for India. The TAG decided to conduct a pilot study for Delhi and to use both the (a) hedonic regression model and (b) the basic Laspeyre's weighted index for constructing an HPI for Delhi.
- For the survey, the residential colonies in Delhi were categorized into 8 tax zones (A to H) as decided by the Municipal Corporation of Delhi (MCD) under the Unit Area Method for property tax assessment. 30 colonies in different tax zones were selected on the basis of transactions for the collection of basic data. Survey was also conducted for Bangalore, Bhopal, Kolkata and Mumbai. The Society for Development Studies [SDS] has submitted their survey reports to TAG and final report with property price indices in 5 cities together with the methodology to be adopted for compilation and regular dissemination of the index is expected to be submitted by March 2007.
- It is well known that the registered prices of houses are grossly under-estimated due to very high registration fees and stamp duty. The subsequent obligations for the payment of property tax act as a disincentive to individual purchasers (except corporate bodies) for revealing the exact purchase price of a house. Therefore, in addition to information from registration offices, basic data on value, plinth area, location, age and basic characteristics of houses are being collected from property dealers, Residents' Welfare Associations (RWAs), Development Authorities/Municipal Corporations and the private builders.
- The TAG has decided to take 2001 as the base year for the construction of HPI. The choice of the base year for HPI is consistent with the base period of other indices, that is, 2001 for the revised CPI-IW series, 2000-01 for the revised WPI and 1999-2000 for the revised GDP series.
- For HPI, basic data has been collected for each year since 2001 for the 5 cities. For each selected colony of the 5 cities and for each year, information has been collected for 20 transactions, which actually took place during the year.