Real Estate Markets in Mumbai: A Case of Topographical Constraints Worsened by Public Policies

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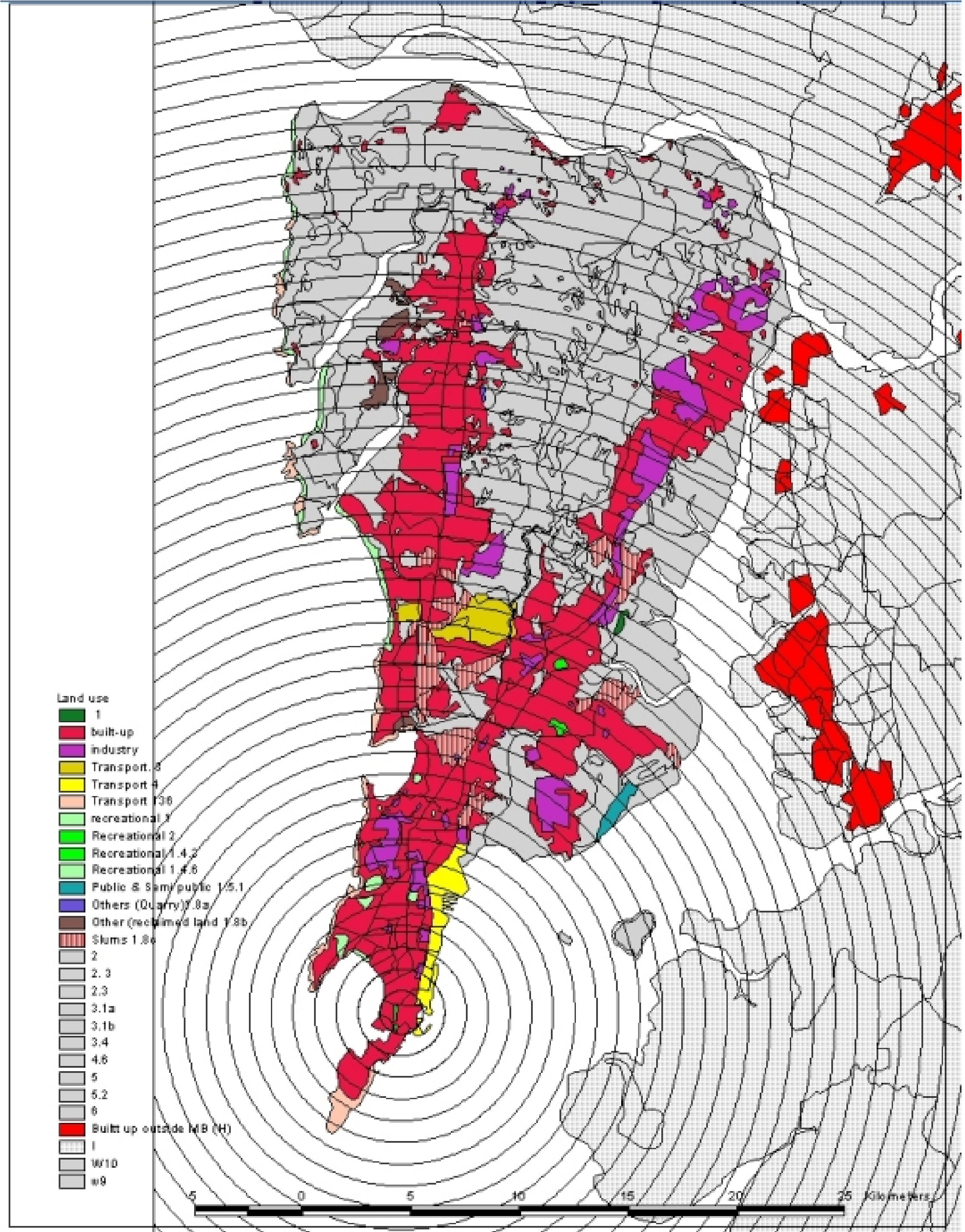
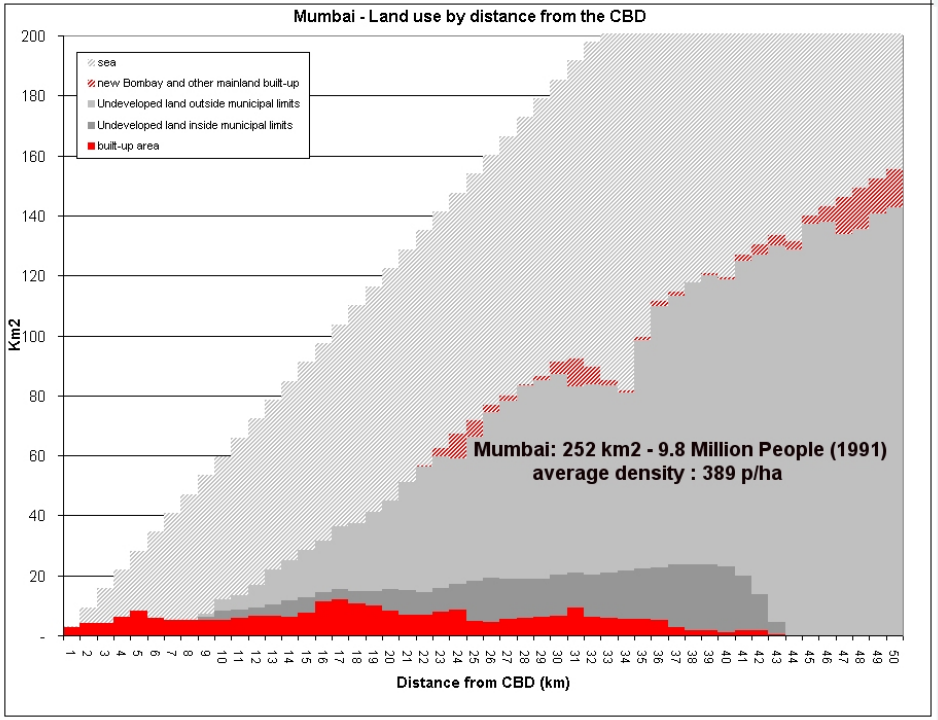
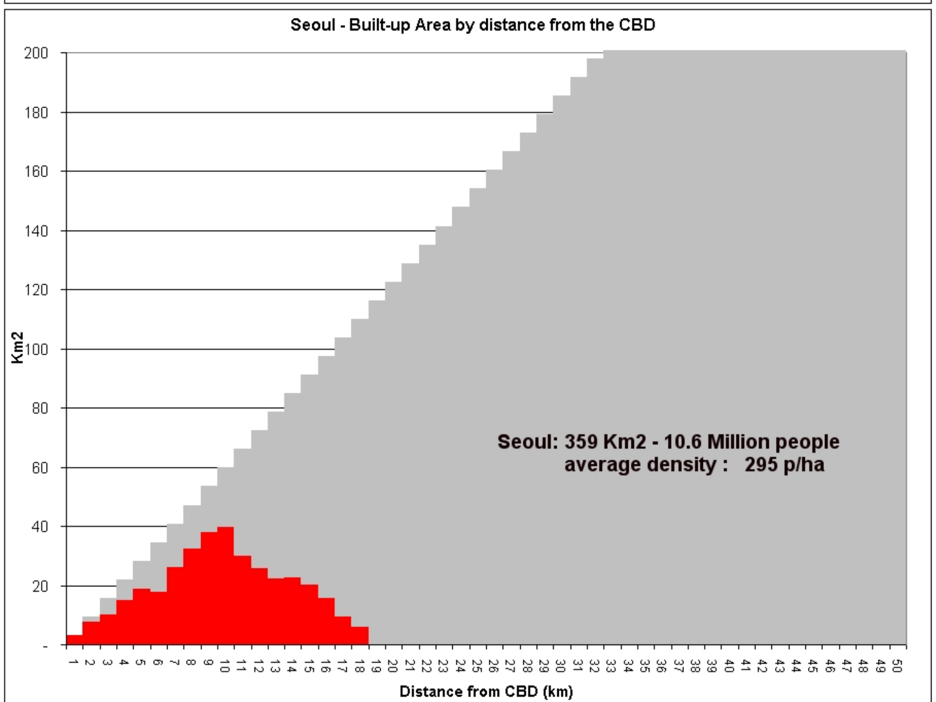
- Mumbai is a city with notoriously expensive housing and business floor space.
- We argue that this situation is the result of topographical constraints combined with undesirable public policies.
- The outcome is an inadequate supply of space for households and businesses, and high prices.



The built-up area of Mumbai is spread over a very large area because of the peculiar topography.
The topographical constraint is compounded by the position of the current CBD at the Southern tip of the peninsula.

The circles shown on the map are centered on Churchgate and their radius increasing at 1 km interval.





The top graph shows the built-up area of Mumbai at 1km interval from the city center (Churchgate).

The bottom graph shows the built-up area of Seoul represented at the same scale. In part because of the severe topographical constraint, Mumbai is much less compact than Seoul, in spite of a higher density.

Mumbai and Seoul have a similar population, respectively 9.8 and 10.6 million (1990)

Given its circumstances, Mumbai should be a high-rise city.

- But draconian regulation of FSI limits the floor space that can be produced per unit of land.
- So Mumbai is instead a city of medium and low-rise buildings.

Low FSI prevents redevelopment of obsolete buildings

- Without higher FSI projects are usually not financially feasible.
- As a consequence, few buildings get renovated and the city is saddled with inefficient, obsolete space

Supply reduction caused by low FSI leads to:

- Higher rents per square foot
- Lower consumption of floor space (slums)
- Excessive spatial expansion of city and longer trips

Consumers are worse off because of these effects.

- For example, in Bangalore, we compute that consumer loss from FSI restrictions is equivalent to 3-6% of household consumption.

Rent control is also a culprit in the supply problem.

Even though applied to existing buildings, it depresses supply of new space because:

- The need to compensate tenants impedes redevelopment of rent-controlled buildings
- Low property tax revenues from rent-controlled buildings means that the tax burden on new structures must be high

Stringent FSI regulations weaken the CBD by limiting the density of business activities

- Recent economic research has shown that high business densities are critical in generating synergies among firms.
- Low FSI harms the city’s economic vitality.

What must be done to increase real estate supply?

1. Relax FSI restrictions

- Identify priority growth area where demand is the highest,
- Do not use uniform FSI but differentiate between transport nodes and less accessible areas.

Infrastructure must be increased simultaneously, but the cost can be covered by impact fees.

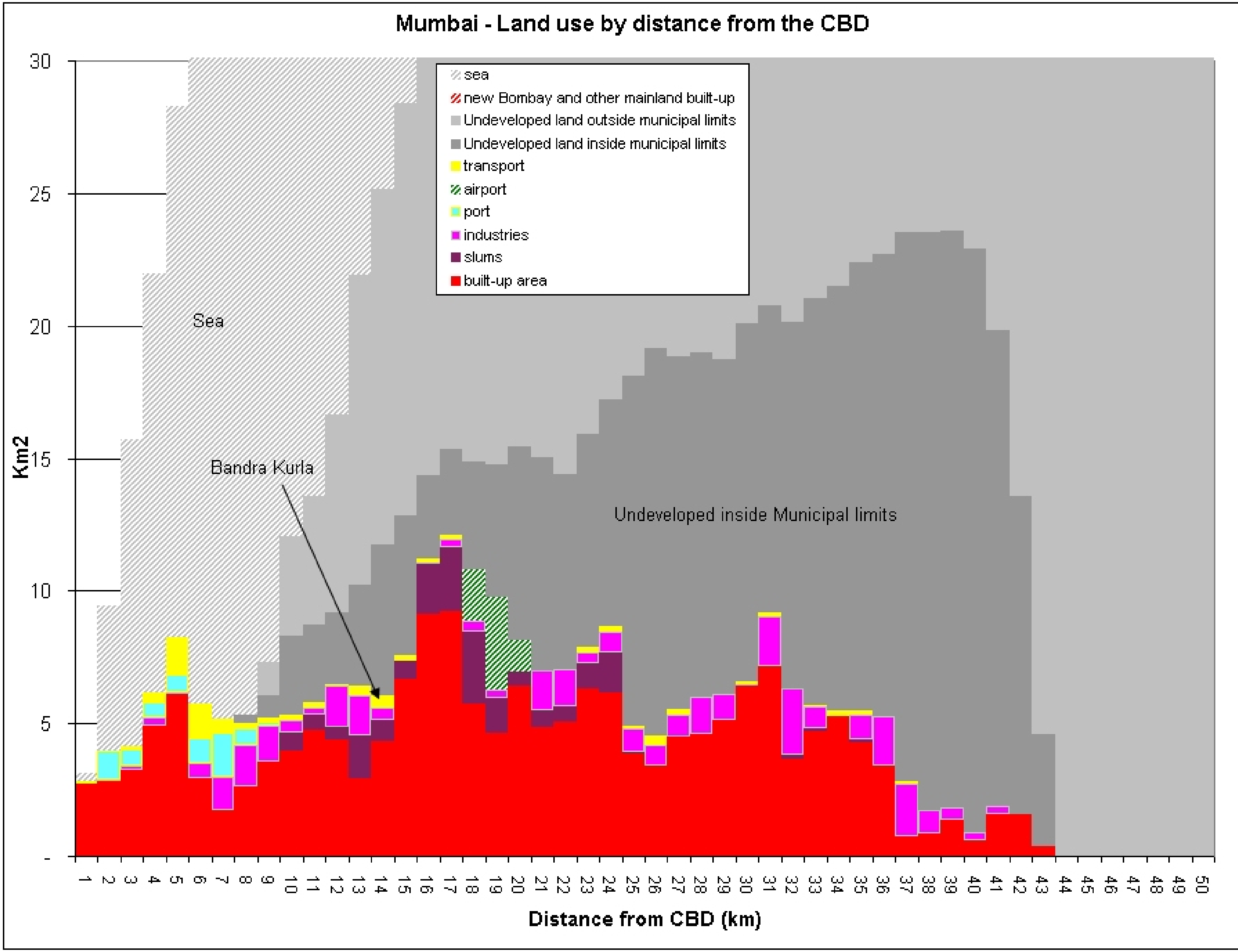
- Higher FSI unlocks the economic potential of the land, and the city can capture some of the gain via impact fees.
- So the city lift itself “by its own bootstraps,” paying for needed infrastructure by capturing some of the developer’s gain.

2. Gradually eliminate rent control

- Will speed redevelopment of old buildings, and reduce fiscal burden on new ones.

3. Develop mill land and other frozen land

- Redeveloping big parcels of land currently locked in other uses will add appreciably to supply.



Mumbai - Land use by distance from the CBD
sea
new Bombay and other mainland built-up
Undeveloped land outside municipal limits
Undeveloped land inside municipal limits
transport
airport
port
industries
slums
built-up area
Sea
Bandra Kurla
Undeveloped inside Municipal limits
Km2
Distance from CBD (km)

Benefits:

- Cheaper floor space for households and businesses
- Increase in dwelling sizes, helping to raise living standards
- Natural shrinkage in size of slums
- More compact city, with shorter trips
- Denser and more-vital business districts

Bandra-Kurla Complex
Mumbai new CBD?

Mumbai could overcome its “topographical handicap” by shifting its CBD to Bandra-Kurla