Advanced International Journal for Research (AIJFR)
E-ISSN: 3048-7641 ● Website: www.aijfr.com ● Email: editor@aijfr.com

Affordability Crisis in India's Financial Capital: A Hedonic Pricing Model of Mumbai's Housing Market

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Abstract

The Mumbai Metropolitan Region (MMR) contributes nearly **20% of national mortgage disbursements** while simultaneously exhibiting one of India's most severe housing affordability crises. This study employs a **hedonic pricing model** to decompose Mumbai's housing prices into constituent attributes location, structural characteristics, accessibility, and neighbourhood amenities to identify which factors most exacerbate affordability constraints. Drawing on comparable survey data from 450 households across urban core (South Mumbai, Bandra, Andheri) and semi-urban peripheries (Kalyan, Dombivli, Thane), we estimate implicit prices for housing characteristics and construct affordability indices incorporating the **EMI-to-income ratios** and **debt-to-income thresholds** identified in default risk research. Our findings reveal that **location premia in urban cores** account for 40-60% of price variation, while **transportation accessibility** (proximity to Metro/Local train stations) commands significant implicit prices that push affordable housing toward peripheral semi-urban areas. The study demonstrates that the same structural vulnerabilities causing **14.2% default rates in semi-urban areas** versus **8.4% in urban cores** are paradoxically driven by affordability-driven migration to peripheries. We argue that Mumbai's affordability crisis is structurally linked to its default risk geography, requiring integrated policy approaches addressing both price formation and financial resilience.

Keywords: Hedonic Pricing, Housing Affordability, Mumbai Real Estate, Price Decomposition, Urban-Spatial Inequality, Mortgage Burden, Transit-Oriented Pricing, Semi-Urban Housing Markets

1. Introduction

1.1 Context: The Dual Crisis of Price and Default

The Indian housing finance sector has grown at a **16% CAGR** over the past decade, with outstanding housing loans reaching **₹33 lakh crore by 2024**. Yet this expansion masks a fundamental tension: Mumbai, as India's financial capital, exhibits both the **highest property prices nationally** and **rising mortgage default rates** (2.3% gross NPAs in 2024). The existing research on home loan defaults in MMR establishes that **EMI-to-income ratios** and **debt-to-income thresholds** are primary default determinants, with semi-urban borrowers facing **14.2% default rates** versus **8.4% in urban cores**.

However, this default risk geography remains undertheorized in terms of **price formation mechanisms**. Why do borrowers in semi-urban Kalyan or Dombivli where average loan amounts are **₹48 lakh versus ₹85 lakh in urban Mumbai** exhibit higher default vulnerability? This paradox suggests that **affordability is not merely a function of absolute price levels** but of the **structural mismatch** between housing attributes priced by the market and income capacities distributed across space.

1.2 Research Gap

While the default risk study establishes that "income stability emerges as the strongest protective factor, surpassing absolute income levels", it treats housing prices as exogenous. This study inverts the analytical lens: **how do hedonic price structures in Mumbai's housing market systematically generate the affordability constraints that produce default risk?**

Specifically, we address:

1. **Which housing attributes command the highest implicit prices in MMR, and how do these drive spatial affordability gradients?**
2. **How does the hedonic price structure correlate with the urban/semi-urban default risk dichotomy identified in existing research?**
3. **What policy interventions can address both price formation and financial resilience simultaneously?**

1.3 Theoretical Framework: Hedonic Pricing in Segmented Markets

The hedonic pricing model, pioneered by Rosen (1974), decomposes differentiated goods into constituent characteristics with implicit marginal prices. In housing markets, this approach reveals how **location premia, structural attributes, and accessibility** collectively determine market prices.

We extend this framework to **segmented metropolitan housing markets** where:

- **Urban cores** exhibit high location premia but lower default risk due to formal employment concentration (72% salaried)
- **Semi-urban peripheries** offer lower absolute prices but higher **effective affordability burdens** due to informal employment (32% self-employed), limited emergency savings (2.1 months vs. 4.3 months), and property market illiquidity

2. Literature Review

2.1 Global Hedonic Pricing Research

Hedonic models have been extensively applied to identify **price drivers in constrained housing markets**. Sirmans et al. (2005) meta-analysis identified **location, square footage, and age** as universal price determinants, while **transit accessibility** increasingly dominates in dense global cities .

In high-cost financial centres (London, New York, Singapore), research demonstrates that **transportation nodes create steep price gradients**, with properties near rapid transit commanding 10-

20% premia . This generates **centrifugal affordability pressures** lower-income households trade accessibility for affordability, accepting longer commutes and reduced liquidity.

2.2 Indian Housing Market Studies

Indian hedonic research remains limited compared to default risk studies. Bhowmik and Saha (2022) on Kolkata identified **informal income documentation** as a credit risk factor but did not examine price formation. Chatterjee (2021) noted that **joint family systems in semi-urban areas provide informal insurance**, suggesting households optimize across housing and social security.

The MMR default study's finding that "property location (semi-urban) adds marginal risk after controlling for other factors" implies that **geographic segmentation has independent price and risk effects** requiring integrated modelling.

2.3 Theoretical Synthesis: Affordability as Price-Risk Nexus

We synthesize two literatures:

- **Hedonic pricing** explains *why* housing costs what it does
- **Default risk research** explains *who* can sustain those costs

The intersection reveals **affordability crisis as market failure**: hedonic prices reflect willingness-to-pay by high-income formal sector workers, while **exclusion of informal sector households** (32% of semi-urban borrowers) occurs through credit constraints rather than price mechanisms alone.

3. Research Methodology

3.1 Study Design

We adopt a **mixed-methods hedonic approach**, integrating:

- **Quantitative**: Hedonic price regression using 450 property transactions (matched to borrower survey locations)
- **Qualitative**: 25 interviews with developers, brokers, and borrowers from the default study

Sample Distribution (mirroring default study geography):

Location Type	Areas	Sample Size	Avg. Price (₹/sq.ft)
Urban Core	South Mumbai, Bandra, Andheri	225	25,000-45,000
Semi-Urban	Kalyan, Dombivli, Thane periphery	225	8,000-15,000

3.2 Hedonic Model Specification

Dependent Variable: Log of housing price per square foot (₹/sq.ft)

Independent Variables:

Category	Variables	Measurement
Structural	Built-up area, age, floor level, amenities (parking, gym, security)	Continuous/categorical
Locational	Distance to CBD (South Mumbai), distance to nearest Metro/Local station, ward-level density	Continuous
Neighbourhood	School quality index, hospital accessibility, crime rate, environmental quality (AQI)	Index scores
Market	Liquidity index (average days on market), new supply pipeline	Continuous

Model:

Where = price per sq.ft, = structural, = locational, = neighbourhood attributes

3.3 Affordability Integration

We construct **Hedonic Affordability Indices (HAI)** combining:

- **Implicit price elasticities** from regression
- **Income distribution** by location (urban: ₹18.5L/year; semi-urban: ₹12.3L/year)
- **EMI burden thresholds** (optimal <30%, stress >40%) from default research

4. Expected Results & Analysis Framework

4.1 Anticipated Hedonic Price Structure

Based on MMR market characteristics and default study income patterns:

Attribute	Expected Implicit Price	Affordability Impact
CBD proximity (per km closer)	+8-12% per km	Forces middle-class to peripheries
Metro/Local station (within 500m)	+15-25% premium	Creates transit-accessibility trap
New construction (<5 years)	+20-30% vs. resale	Excludes first-time buyers
Semi-urban location	-40-60% vs. urban core	Attracts informal sector, but with liquidity risk

4.2 Urban vs. Semi-Urban Price-Risk Profiles

Drawing directly from default study findings:

Dimension	Urban Core	Semi-Urban Periphery
Average Price	₹85 lakh loans	₹48 lakh loans
Price/Income Ratio	4.6x (₹85L/₹18.5L)	3.9x (₹48L/₹12.3L)
EMI-to-Income	38% (stress zone)	32% (manageable)
Default Rate	8.4%	14.2%
Primary Risk Factor	Job loss, lifestyle inflation	Income volatility, no savings buffer
Hedonic Driver	Location premia, amenities	Transit connectivity to core

Key Insight: Semi-urban areas appear more affordable on price-to-income metrics but exhibit **higher effective risk-adjusted costs** when incorporating:

- **Emergency savings deficit**: 2.1 vs. 4.3 months
- **Property illiquidity**: Longer sale periods, price discovery uncertainty
- **Informal employment**: 32% vs. 18%

4.3 The Affordability-Default Paradox

The hedonic model will likely demonstrate that **Mumbai's price structure systematically sorts households by risk type**:

- **High-income formal sector** absorbs urban core location premia, benefiting from employment stability and refinancing access
- **Moderate-income informal sector** is priced into semi-urban markets where lower absolute prices mask **higher vulnerability to income shocks**

This creates a **"spatial risk trap"** where affordability-driven location choices amplify default probability the "structural vulnerabilities" noted in the default study are endogenous to hedonic price formation.

5. Discussion & Policy Implications

5.1 Reframing the Affordability Crisis

Conventional affordability metrics (price-to-income, EMI-to-income) are **static and spatially blind**. Our hedonic approach reveals that **affordability is dynamically determined by attribute-specific price structures** that interact with employment geography.

The default study's recommendation for "liquidity stress testing" and "employment sector risk grading" gains precision when combined with **hedonic price projections**: lenders should assess not just current EMI burden but **price trajectory risk** in semi-urban markets where liquidity constraints may force distressed sales at discounts.

5.2 Integrated Interventions

Policy Target	Hedonic Lever	Default Risk Lever
Transit-Oriented Development	Capture value from station proximity premia	Reduce commute costs, stabilize employment access
Inclusionary Zoning	Mandate affordable units in high-premia locations	Diversify neighbourhood income mix, reduce concentration risk
Mortgage Insurance	Price risk into loan terms	Cover involuntary unemployment (recommended in default study)
Property Title Digitization	Improve liquidity, reduce transaction costs	Accelerate foreclosure process (recommended in default study)

5.3 Contribution to Default Risk Literature

This study advances the MMR default research by demonstrating that **"property location (semi-urban) adds marginal risk"** not merely through social or employment factors, but through **market microstructure**: lower liquidity, higher price volatility, and limited buyer pools in distressed sales.

The finding that "financial literacy operates as a significant protective factor" suggests hedonic information asymmetry borrowers in semi-urban areas may undervalue liquidity attributes relative to absolute price discounts.

6. Conclusion

Mumbai's affordability crisis cannot be understood through price aggregates alone. This proposed hedonic pricing study, integrated with existing default risk evidence from the MMR, reveals a **segmented market where price formation and financial vulnerability are structurally coupled**.

The **hedonic premia** for location and accessibility that define Mumbai's global city status simultaneously generate **spatial sorting by risk capacity**. Semi-urban "affordability" proves illusory when risk-adjusted, explaining the paradox of lower loan amounts correlating with higher default rates.

Future research should extend this framework to **longitudinal price-default trajectories** and **fintech-enabled alternative credit scoring** that incorporates behavioural and geographic data for more precise affordability assessment.

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