

As demand declines, realtors hold on to expansion plans

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Mumbai, Oct 20: With the global economic meltdown taking its toll on the Indian real estate sector, the residential sector market has started witnessing a significant dent in demand, while demand for commercial properties nationwide, has started dipping by 70% to 80%.

Retail developers too are holding on to their expansion plans and are seeing a dent of over 50% in demand, according to international property consultants and developers.

Prakash Gurbaxani, founder and chief executive officer, QVC Realty said, “Oversupply of apartments in major metros coupled with the current market sentiments is getting badly impacted. Demand for IT parks too will remain dented for the next few months. With the result, the sales cycle will get elongated by the next 18 months.”

While demand for ownership of properties in Mumbai (which is available at Rs 40 lakh) has dipped with consumers preferring to stay on rental basis, NCR and Chennai too is witnessing a dip in demand for property being available at Rs 20 lakh, Ashish Bhalla, managing director, Millennium Spire Ltd (a private equity investment company) said.

Moreover, recent attempts by real estate developers to offer 10% to 25% discounts on residential properties prior to Diwali, has failed to attract home buyers as there is absolutely no demand by home buyers in the market, feels international property consultants. For instance, Swastik Developers are offering 12 months free home stay with no rentals and maintenance in Thane prior to buying a flat. However, they have not been able to woo any home buyer for the property so far, say company sources.

Akruti City, which displayed details of its new upcoming projects at the recently held Maharashtra Chamber of Housing Industry (MCHI) property exhibition, has witnessed a number of visitors. However, the projects are yet to attract actual home buyers as two new residential projects, each in Pune as Akruti Countrywood, and, as Akruti Gardenia in Mira Road in November will be formally launched in November, 2008 with prices hovering each at Rs 3,000 per sq ft.

Hemant Shah, chairman, Akruti City told FE , “We expect bookings to start only after the new properties are formally launched and after home buyers personally sees the properties.” Of the 4,000 visitors, which Kanakia Spaces witnessed at MCHI exhibition as one of the participants in four days here, the company has booked two home buyers, its vice president, Subhash Pillai told FE . This is a classic example to prove that there are hardly any actual home buyers left in the market currently.

However, Mumbai-based Lodha Group has not participated in MCHI exhibition this year, unlike last year. According to Abhinandan Lodha, managing director, Lodha Group, home buyers are more cautious in terms of home buying this year as compared to previous year as they are looking for wider range of good products at the right price. We too are currently facing a dent in demand from homebuyers. “Despite the inflationary trends, Lodha Group is offering any discounts to home buyers for the upcoming festival season.”

K Raheja Universal, which is offering discounts of up to 10% to its home buyers is only witnessing inquiries for new properties, as compared to actual home buying deals, as compared to previous corresponding period. Its officials said, “Due to Sensex crashing heavily, demand from investors for buying properties has dented drastically. In fact, they have started selling off their invested properties to large extent”.

As for commercial real estate sector, Indiabulls Real Estate is currently quoting a price of Rs 175 per sq ft for their commercial properties, whereas, HCC is quoting at Rs 80 per sq ft in Vakola. Developers too fear that the demand will further dampen post Diwali. Many commercial properties in city’s commercial hub, Bandra-Kurla Complex is lying 50% to 60% vacant with rent as high as Rs 300 to Rs 400 per sq ft. Delhi-based DLF Ltd spokesperson, Sanjey Roy too said, “We are not offering any discounts on any DLF properties.”

Industry experts also believe that in order to raise further debt for their long-term projects, builders may even look at selling their land and personal assets as well. Raja Kaushal, executive director and chief operating officer, AtisReal Redwoods (a BNP Paribas company), executive director said, “In order to waive off the debts, major listed real estate companies are in the process of selling off their land assets and personal assets as well.”

Pankaj Renjhen, managing director (Mumbai) Jones Lang LaSalle Meghraj opines, “The confluence of various negative market dynamics is largely responsible. Property purchase sentiments are currently depressed because of an all-round shortage of liquidity, relative unavailability of credit and free-floating rumors of large-scale corrections in the offing.”

Already, sales of residential properties have slowed down dramatically, especially in key areas from Santa Cruz up to Andheri, Goregaon and Kandivali. There has been a 40% dip in sales since the slowdown began, and intending buyers are deferring their decisions until after November. The logic is that developers who are holding on to their asking rates will have to come down on them after the festive season. The rise in interest rates has compounded this scenario further, Renjhen explained.

Renjhen added, “The scenario is different in the Bandra-Khar area, where the cash-cheque component in transactions is far higher. The dip there has been to the tune of 25%. There have been no transactions in south Mumbai since the last four months, even though investors are now selling flats at cheaper rates than builder flats. In areas like Byculla and Prabhadevi, builders are asking for rates like Rs 35,000 to 45,000 per sq ft while investors are asking for Rs 28,000 to 35,000 per sq ft.”

Jai Mavani, executive director, KPMG India sums up, “Real estate market in India is due for correction. Due to credit squeeze, the pace of construction will get delayed. For starting new projects, developers will have to unlock liquidity and will have to reduce property prices.”