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Real slow

: The much-touted softening of real estate prices, between Rs 700 per sq ft to Rs 2,000 per sq ft, has started emerging in various metros in India, including suburban Mumbai, National Capital Region (NCR), Chennai and Kolkata. This is a result of the US economic meltdown and markets crashing taking the sensx south further and creating a severe impact on the real estate sector. Looking at the scenario, industry experts and home buyers feel that buying a home on ownership basis is still becoming a distant dream. Softening of prices has failed to meet the evolving needs of a basic necessity of people of buying a home, as property prices have not reduced, as per home buyers expectations.

Reasons

Oversupply of apartments in major metros coupled with the current market sentiments is one of the major reasons for this trend. 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, explained Prakash Gurbaxani, Founder and Chief Executive Officer, QVC Realty.

According to Ashish Bhalla, Managing Director, Millennium Spire Ltd (a private equity investment company), "People in Mumbai still prefer to stay on rental basis due to soaring prices of flats on ownership basis even for one BHK (starting at Rs 40 lakh) which is resulting in dip in demand to the extent of 90% to 100%. Here, the prices have started dipping by Rs 800 to Rs 1,400 per sq ft. Meanwhile, NCR, Chennai too are witnessing dip in demand for properties being available at Rs 20 lakh by the locals although the prices have dipped by Rs 700 per sq ft to Rs 1,000 per sq ft."

Pankaj Renjhen, Managing Director (Mumbai) Jones Lang LaSalle Meghraj (JLLM) said, "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."

Diwali bonanza?

Most renowned developers across the country are understood to be offering 10% to 25% discounts apart from LCD TVs and luxury cars for free. Raja Kaushal, executive director and chief operating officer, AtisReal Redwoods (a BNP Paribas company) opines, "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.” However, the moot point here is will these offers be able to woo home buyers who cannot afford to buy properties on ownership basis?

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, Sanjay Roy said, “We are not offering any discounts on any DLF properties.”

Selling vs leasing

Certain other developers in Mumbai and various parts of the country have started selling their commercial real estate which includes office, retail and hotels, rather than leasing them out. The developers are ready to sell properties at a rate which is seen attractive by the buyers today. The appetite is to purchase, build and sell off projects, with the prospect of gaining immediate returns, according to experts. Raheja Corporation, which has huge office spaces in multiple projects spread across Pune, Hyderabad and Navi Mumbai, has started selling their office spaces. According to sources, Indiabulls Center, which was leasing out office spaces, has now started the process of selling the office space completely.

Ashok Piramal group’s realty company Peninsula Land Ltd (PLL), which is developing commercial buildings near Ashok Gardens located at upper Parel in Mumbai, is selling off the commercial building instead of leasing the property. Peninsula Land, which had sold off 5 lakh sq ft of Dawn Mills, is now in the process of selling complete 19 lakh sq ft. They are in the process of selling the remaining land as well. Realty major, DLF too is in the process of selling a part of its big commercial establishments instead of leasing. Competitor, Hiranandani Constructions is understood to have not entered into a single land deal since the past few months.

Need for cash flow

Anuj Puri, Chairman and Country Head, JLLM, has cited various reasons behind developers wanting to sell properties instead of leasing them. He said, “There are owner occupiers wanting to take the benefit increasingly of the properties on lease and wanting to buy. The lease rates are still high while there has been softening of the sale price and the builders need some cash flow.” When contacted, Sanjay Dutt, Managing Director, Cushman & Wakefield said, “Today, real estate developers are willing to enter only those projects which can be purchased, built and sold off quickly and make money. Developers have started believing in futuristic games.”

Property purchase sentiments are currently depressed because of an all-round shortage of liquidity, relative unavailability of credit and free-floating rumours of large-scale corrections in the offing, Pankaj Renjhen, Managing Director (Mumbai) JLLM added.

Affordable housing

However, Shobhit Agarwal, joint Managing Director, capital markets, JLLM opines, “The current global financial crisis will have no impact on India-based affordable housing projects, since no international funding is called for. There are two cost-to-developer components in question for such projects. One of these is cost of land, but such projects are located in areas where land costs are low to begin with, such as the TMC project by Matheran Realty in Katraj, Maharashtra.” The second is cost of construction, which is adequately covered by the down-payments taken on such units. Moreover, such housing formats invariably employ de-frilled mass-construction parameters, which also imply lowered construction costs. Also, there is ready private equity funding available for affordable housing projects, since the demand for such projects is inflexible and assured, he added.

Kumar Gera, Chairman, CREDAI said, “Domestic industrial growth has slowed down — it can slow down further with the reduction in global demand. This needs to be countered by large scale stimulation of infrastructure, housing and real estate developments in our domestic markets. These developments have very significant linkages to some 130 manufacturing sectors as well as to employment. These sectors can now play a major role if the right stimulus is applied. Action by way of a time bound stimulus package that can save jobs as well as support the domestic industry is the need of the hour. A proper balance of supply and demand will ensure price stability. Proactive initiatives are called for, on an urgent basis.” Industry experts believe that there is a definite danger in waiting too long for the perfect opportunity. Much as in the stock market, it is impossible to predict the point of lowest ebb in the real estate market. The danger in delaying a purchase too long is two-fold. Firstly, the buyer may lose out on the best properties. Secondly, the market may regain equilibrium, meaning that the add-ons and even lowered rates may no longer be available.