



TELCOS GEAR UP TO FACE R-JIO ONSLAUGHT



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BUILDER VS BUYER: WHO WILL BLINK FIRST?



INTERVIEW:
MUKESH BANSAL
"Flipkart will go 'mobile only' in less than a year"



PROPERTY PLUS

The residential market is still and listless. But prices have abated, and with builders desperate, home buyers can bargain and squeeze out a sweet deal **By Ashish Sinha & Sunil Dhawan**





MMETS

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HE AMERICANS will hate to admit it, but the real estate meltdown seems to have hit them too. After five years of marketing and engaging the best broking houses, they could not sell 'Lincoln House', the old US Consulate in Mumbai's Breach Candy, at the reserve price they had set at Rs 850 crore. The worth of the sprawling three-storey heritage mansion was arrived at with substantial 'due diligence'. But there were no takers, till well-known businessman Cyrus Poonawalla bought it for Rs 750 crore, a figure substantially below its MRP!

Realtors, too, hate to admit it, but there is a bloodbath in residential real estate, especially in smaller tier-II and-III cities. The prices are down between 10-25 per cent across markets like Chandigarh, Surat, Dehradun, and Delhi's Dwarka Expressway, and Gurgaon's Golf Course Extension. There are bargains waiting to be snapped up for ready-to-move-in homes. In bigger markets like Delhi NCR, Mumbai, and Bangalore, builders are struggling to find home buyers. The pile-up of unsold stock has exceeded an estimated 7 lakhs units and is putting a big downward pressure on prices, according to a recent report by Knight Frank Property Consultants. With inflation coming down, the Reserve Bank of India is under pressure to cut interest rates to enable banks to offer cheaper home loans.

There is a caveat, though. Realtors and brokers working for them are holding the price line of their unsold units. Their message to home buyers is: this is the right time to buy a home because there won't be any further drop in prices. The buyer is, however, sceptical and is continuing to delay a deal in the hope that prices will fall further. So there is stalemate, and a paralysis in the property market.

On the other hand, for the astute buyer, this just may be the right time to scout around and zero in on



a dream home, especially if one is looking for a ready-to-move unit.

The Crash Cometh

Brokers and property sites that paint a rosy picture are finally admitting there is a free fall on. A recent Ambit Capital report on the residential property sector reported that prices had fallen 7-18 per cent across cities. However, in media interaction, when the analysts predicted a possible 50 per cent fall in prices over the next year, it created a huge stir. Earlier, a Knight Frank report said prices could fall as much as 30 per cent over the next six months.

The Knight Frank report on the residential market says Delhi-NCR and Mumbai together account for 55 per cent of the 7 lakh unsold units across the Top 8 housing markets. The report goes on to say that it may take over three years for this stockpile to clear; and that housing sales have dropped by 19 per cent and new launches by 40 per cent during the January-June 2015 period across the eight cities as compared to the year ago period. These eight cities are Delhi-NCR, Mumbai, Bengaluru, Pune, Kolkata, Chennai, Hyderabad and Ahmedabad.

The research by another property monitoring agency, Lias Foras, points in the same direction. The cumulative sales across eight major cities in India declined by 4 per cent on a year-on-year (yoy) basis, from 75.6 million sq. ft in the first quarter of 2014-15 to 72.3 million sq. ft in the first quarter of 2015-16. Ahmedabad, Bangalore, Chennai, Kolkata and NCR have witnessed a major fall in sales, whereas cities like Hyderabad, MMR and Pune have shown improvement in sales on a y-o-y basis, it says.

According to the Ambit Capital report, new project launches are also down by 40-80 per cent compared to the year ago period. The quarterly report released by PropTiger.com shows sales in the realty sector dropped by 18 per cent over the last quarter but prices are likely to remain stable. Dhruv Agarwala, co-founder and CEO of PropTiger.com, says: "The drop in sales has been primarily due to a drop in new launches."

Realtors Wear a Brave Face...

The apex body of realtors, the Confederation of Real Estate Developers' Associations of India (CREDAI), which claims to have 10,000 developer members, has termed the various figures of inventory overhang as "wrong" and "confusing". Responding to questions posed

"The delays have added to the stigma attached with unfinished projects"

SANJAY DUTT
MD-India, Cushman
& Wakefield



by BW Businessworld, Getamber Anand, president, CREDAI National, says: "It is unfortunate that the message

being sent out to the home buyer by opinion makers is absolutely wrong and confusing." Anand questions the various surveys and broker reports. "Not one of these so-called 'knowledgeable agencies' have contacted the developer community to ask the truth about the launched, completed and unsold inventory," he says.

But the Knight Frank report captures the slowdown. "While the sales volume dropped by 19 per cent during the first half of 2015 compared to the first half of 2014, new launches fell by a whopping 45 per cent during the same period. As per our projections, the sales volume will be 9 per cent lower in 2015 compared to 2014, and new launches are expected to fall short by 34 per cent," it says. According to the report, the NCR witnessed the sharpest decrease in new launches at 68 per cent during the first half of 2015. "A mere 11,360 residential units were launched in the NCR during the first half of 2015," it says.

Is there a way out of the mess? The real estate developers are at loggerheads with the government and the central bank, each asking the other to take steps to restart the buying-selling cycle.

Taking note of the crisis, RBI governor Raghuram Rajan has urged the developers to reduce prices and thereby stoke buying activity. "...I think we need the market to clear the excess stock and with growing unsold stock, we need to see the ways to do it. Some of it might be by making loans easier," Rajan said in a conversation with the State Bank of India (SBI) chairman at a banking meet.



SBI chairman Arundhati Bhattacharya asked the RBI governor to allow home loans below the base rate as real estate stocks were at a two-year high and bad loans in the housing segment were at the lowest. CREDAI, in a riposte, told the RBI to cut interest rates instead so that cheaper home loans are available. It has also urged the government to rationalise taxes and streamline the approval process to bring down property prices.

...But The Heat Is On

When *BW Businessworld* asked the developers about slowdown in the residential market, many chose to avoid official comments. In private, they did concede that sales had been stagnating. Brotin Banerjee, MD & CEO, Tata Housing, concedes that there was indeed a slowdown. "The real estate market is under pressure from the twin factors of slowdown and a high rate of interest, which is putting a rein on prices in key cities," Banerjee says that though the industry is grappling with low absorption


rates for the last few quarters, this is the right time for end users and investors to buy homes. Girish Shah, CMO, Godrej Properties, is more cautious though: "The market dynamics vary from location to location and it would be difficult to generalise as to an overall slowdown."

Anand of CREDAI says cities like Coimbatore, Belgaum, Chandigarh, and Noida Extension have ample supply at Rs 3,500 per sq. ft. "Across the country, the average price of housing ranges between Rs 3,500 and 5,500 a sq. ft. To say that there is a panic in the developer community is not true. The community is confident that the home buyer — sooner than later — will realise that there is going to be no further price correction and will buy at the existing, realistic price levels," Anand adds.

Will developers cut prices? Not likely, say a number of developers. "Most developers purchase land and there is a huge cost associated with it. Add to it the rising cost of materials and labour. In this scenario, margins are already thin," says Shah of Godrej Properties.

Anand says given that the cost of construction is a constant, ranging from Rs 2,000 to Rs 3,000 per sq. ft (depending on the height of the building) and given that the cost of land across the country (except for premium locations) ranges from Rs 500 to 2,000 per sq. ft, "there is no scope for a price reduction".

Bangalore-based developer Pratik K. Mehta, MD, Unishire, attributes the slowdown to three major factors: Oversupply in markets like Mumbai and New Delhi, high interest rates and speculative investor-led markets. "Even though Bangalore has not seen an oversupply, overall country-wide sentiments are impacting this market as well," says Mehta. He points to the speculative investor-led markets like Mumbai and New Delhi, which are witnessing strong correction in realty prices and these sentiments are impacting end-user driven markets like Bangalore as well.



"The realty market is under pressure from twin factors of slowdown and a high rate of interest"

BROTIN BANERJEE
MD & CEO, Tata Housing

Foreign Investors Cash In

While the retail buyer is in a wait-and-watch mood, institutional investors see soft prices and troubled builders with over leveraged balance sheets and incomplete projects as a definite opportunity. After all, buying cheap and exiting at higher levels remains the mantra across all asset classes. According to

VC Edge, the data research platform of VC Circle, in the first half of 2015, real estate attracted \$1.3 billion against \$892.81 million in the first half of 2014, a growth of 45 per cent in foreign investments.

Among the big investors have been Goldman Sachs, which has bought a minority stake in Piramal Realty, the privately-held real estate arm of Ajay Piramal-led diversified firm Piramal Enterprises, for Rs 978 crore. It was also reported that Warburg Pincus too had pumped in Rs 1,800 crore to buy a minority stake in the same company.

Goldman Sachs and Creador have also picked up stake in North India-based Ashiana Housing. Even DLF, India's largest realty firm, has reportedly sold about 50 per cent stake each in two upcoming projects to Singapore's sovereign wealth fund GIC for Rs 1,990 crore. Rising institutional interest in the realty space may be a sign that the sector is bottoming out.

Ground View Contradicts Builders

On the ground, the reality of a price correction is evident. *BW*

Businessworld's dipstick survey shows the average price range on Dwarka

Expressway has come down by around 10 per cent compared to what it was a year ago. "The average residential rate was Rs 4,500 per sq. ft in April-June 2015 against Rs 5,000 per sq. ft in the corresponding period last year. There is an oversupply of under-construction units in this region and, as a result, there are multiple price points depending on the project's location, amenities offered, and date of delivery," says Raza Khan, another local property dealer. Same is the case of Ulwe region of Navi Mumbai. Projects are selling at multiple price points. There was some pressure on prices last year in the region. At the current average of Rs 5,600 per sq. ft, prices have remained flat since the start of the year.

"Even the resale market has been adversely affected. According to the latest NHB Residex, a table that charts price trends across 18 cities in the country, Chandigarh, Meerut, Surat, Dehradun and Lucknow have seen a decline in rates. Chandigarh saw the maximum drop of 4.4 per cent during the April-June 2015 period," says Neeraj Bansal, partner and head, Real Estate and Construction, KPMG India.

Areas in Chandigarh such as Dera Bassi and Zirakpur-Kalka Highway have seen prices drop 25 per cent and 23 per cent, respectively, during the first quarter of 2015. Most sectors of Mohali have also registered a downward trend during the first three months of this year. In some of the over-supplied markets, resale prices are 15-20 per cent lower than the primary property rates, he adds.

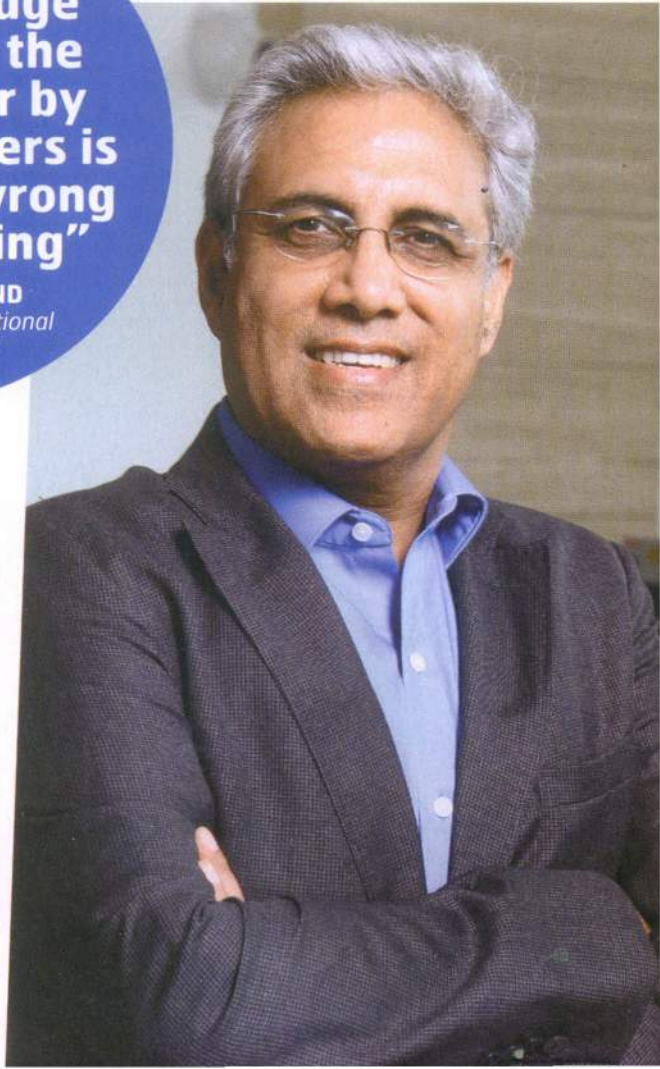
According to the Ambit Capital Research report, prices in South Delhi are already down by 20-25 per cent. In the smaller cities, the situation seems to be worse; Jaipur, Rajkot and Lucknow have had a 15-20 per cent y-o-y correction.

Sanjay Dutt, managing director, India, Cushman & Wakefield, says: "Infrastructure development didn't match pace with skyrocketing capital values of residential space. The undue delay in completion of projects also added to the stigma attached with under-construction projects.

This led to buyers becoming increasingly reluctant to buy into under-construction projects, leading to the slowdown in sales activity and pile of inventory."

"The message sent out to the home buyer by opinion makers is absolutely wrong and confusing"

GETAMBER ANAND
President, CREDAI National



Photograph by Ritesh Sharma



Bank Credit, Black Money Exits

The RBI figures show bank credit to commercial real estate grew 5.3 per cent (24 July 2015/25 July 2014) against 19 per cent during November 2010. Says Sunil Rohokale, MD & CEO, ASK Group, "Bank credit is still available for bankable projects, but poor sales velocity, softening prices and much-delayed completion of projects may lead to interest payment defaults impacting the non-performing assests of banks."

It's a widely accepted belief that it's the investor community representing about 80 per cent of the market that determines prices more than the end-buyer. The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 got its teeth in July this year. Therefore, there is a perception that the government getting active against black money has resulted in investors shying away thereby impacting real estate sales.

Sumchit Anand, founder and managing director of Acquisory Consulting, says: "Cash transactions may have been impacted by a tight control on the black money/cash part by the government. This may restrict cash rich high

net worth individuals, who may otherwise have been active investors in this segment."

A Good Time To Buy?

Prices in locations that are poor in infrastructure could see further correction. Rajeev Kumar, president, Sales, AIRWIL, says: "Buyers today have better negotiation power as there is excessive supply and less demand. Depending on the 'distress' of the builder, we may see price cuts, especially in locations where infrastructural concerns persist."

ASK Group MD & CEO Sunil Rohokale says: "In today's real estate market, speculators are non-existent, while there are large proportion of end-users and few investors." Rohokale's advise is to select the right under-construction project and avoid investing in a fresh project "as there may be a delay and a situation may arise where both EMI and rentals may start pinching."

The home buying market is not uniform and each city shows a different price movement. Within the city, too, there are micro-markets that are at variance with one

another. In Mumbai, for instance, in the far suburbs of Dombivili or Virar, price corrections have been in the 10-15 per cent range; however, in the island city of south Mumbai, prices are holding though not rising as there is hardly any fresh supply.

According to Acquisory Consulting's Sumchit, "In the Gurgaon, Noida, Faridabad and other NCR suburbs, prices have corrected more than 12-25 per cent over the past two years."

Rather than waiting, try bargaining with the builder for a better price.

Sumchit suggests, "The general perception for buyers is to wait as the prices may come down further in the future. This, however, may be true for new projects, but unlikely for projects nearing completion."

Anand, who is also the managing director of ATS Group, gives a more pointed advice: "The prices for any project, as it nears completion, tend to go up. The best time to buy is between 8-12 months before the completion of a project." "As a bottomline, we believe sluggish demand in real estate is more due to high prices rather than high interest rates," says Sumchit.

Most real estate experts say that around 80 per cent of the unsold inventory today is held by re-sellers. And the sticking point is that re-sellers won't be the first to start selling at a lower price. It is the builder who has to crack first.

"In today's real estate market, speculators are non-existent"

SUNIL ROHOKALE
MD & CEO, ASK Group



What will be that breaking point? "If during festive season, October-December, there is no improvement in sales in the residential segment, the developers may be forced to reduce prices and sell out unsold inventories," feels Sumchit.

Adds Dutt of Cushman & Wakefield, "Buyers looking for a value deal should carefully evaluate discounts such as no EMI for 24/36 months or subvention scheme under which the developer pays the EMI on behalf of the buyer for the specified period. These schemes are usually higher priced compared to a construction-linked plan or possession-linked plan. It is advisable to scout the secondary market before purchasing directly from the developer as one is likely to find similar space at a lower price."

Pune-based developer Kishor Pate of Amit Enterprises, on the other hand, advises not to expect too many price cuts. "What will be in evidence is developers' increased willingness to reduce the financial burden of purchase by waiving charges such as service tax and stamp duty."

Dealer commissions offered by builders to brokers and other intermediaries vary between 2-10 per cent. However, in practice, a large portion of these commissions are passed on to the buyer. Dealer discounts along with builder discounts and the other freebies should be squeezed out to get the best deal.

A word of caution from Kishor Pate though: "The offers that will appear as the most tempting may come from developers whose projects lack the necessary approvals or are unsound investment options."

Recovery Any Time Soon?

How and when will this traffic snarl of builders not budging on prices and cash-strapped home buyers waiting for a cheaper deal end?

Agarwala of PropTiger.com feels that some fundamental parameters have to change to kick-start this sector. "We need infrastructure development to connect affordable areas with commercial hubs (functional expressways, metro lines, roads). This should be combined with streamlining the approval process for real estate projects to enable developers to deliver projects on time," says Agarwala, adding: "The most crucial is economic growth resulting in salary increases and ultimately better affordability."

The single-biggest trigger for a change in sentiment which Agarwala and others see is a combination of steep reduction in interest rates and sharp price cuts by developers. Agrees Acquisory Consulting's Anand: "The answer is developers setting realistic sales prices, a boost in consumer confidence and a possible reduction in the rate of interest for the construction sector



FIRST PERSON

Sanjay Chandra, MD, Unitech

The slowdown in the real estate sector is definitely a reality. However, I feel that things have hit a bottom, it is unlikely to fall more. Over the next few months, the sector will see an upward movement. Revival in the sector is imminent and a few triggers like rate cuts by lenders over the next few months will add impetus to this revival. I am getting this indication from the robustness returning to the commercial leasing space. As commercial leasing increase, especially in markets like Gurgaon, demand for housing follows.

As to the issue of price cuts, if you look at where prices have been in the past few years, you will see that in most parts of the country prices have been static. So in effect, real prices taking inflation into account have actually gone down. Higher input costs, high land prices and high borrowing costs mean that developers have little room for bringing down prices. But yes, what buyers are getting today are at yesterday's price.

CLIMB DOWN

Real estate prices in key sub-markets have seen significant softening over peak values

City	Submarket	Peak capital values (quarter)	Peak capital values (year)	Peak capital values (Rs/sq. ft)	Capital values (Rs/sq. ft) as of Q2 2015	Change (%)
Delhi-NCR	Golf Course Extension Road	Q4	2012	10,750	9,250	-14%
Delhi-NCR	Southern Peripheral Road	Q4	2013	7,250	6,750	-7%
Delhi-NCR	New Gurgaon	Q2	2013	5,500	4,750	-14%
Delhi-NCR	Dwarka Expressway	Q2	2013	8,250	6,750	-18%
Delhi-NCR	Noida Expressway	Q4	2013	5,750	5,500	-4%
Delhi-NCR	East of central Noida	Q4	2013	5,200	5,000	-4%
Delhi-NCR	Noida Extension	Q4	2013	3,200	3,000	-6%
Kolkata	North-east	Q2	2013	3,125	3,050	-2%
Chennai	Rajiv Gandhi Salai-II	Q1	2013	4,500	4,250	-6%
Mumbai	Navi Mumbai	Q4	2012	10,000	8,000	-20%
Mumbai	Thane	Q4	2012	9,500	9,000	-5%
Mumbai	Western suburbs	Q4	2012	14,500	12,500	-14%

SOURCE: CUSHMAN & WAKEFIELD

and for home loans." Builders in a recessionary grip have a stock response. They begin changing their project profile to fit into the 'affordable' segment. They did it in the past, and they are doing it now. By offering an increasing number of smaller homes in the Rs 20 lakh-Rs 75 lakh range, they are hoping to stoke demand. "Affordable housing may be the answer to beat the slowdown blues. Given the fact that there is latent demand for affordable housing, it is one way of boosting our prospects, says Tata

Housing's Banerjee. Tata Housing has a separate entity known as Tata Value Homes that exclusively focuses on value and affordable housing segments. Even Mumbai-based Niranjan Hiranandani, known more for his luxury projects, is for the first time developing small, 'affordable' units.

A possible trigger can be the government's Housing For All scheme. If it gets going in multiple cities with partnerships between the private sector for hundreds of affordable, home loan-linked projects, lakhs of prospective home owners will enter the market creating a possible bull run. Mehta of Bangalore-based Unishire Group agrees. He says the

government's Housing For All project will pave the way for a growth in budget homes. "Bangalore will see a surge in affordable and mid-segment residential market. Demand for houses in the range of Rs 40-75 lakh are likely to go up," he says.

Others feel things will change once the recessionary cycle abates. Says Sunil Rohokale of the ASK Group: "We have to await an uptick in the investment cycle leading to a growth in economy, job creation and rising incomes in

addition to softening of residential real estate prices by 5-10 per cent. The big trigger will be when consumers feel confident that they are getting value for money."

Realtors and property brokers, on the other hand, are not a pessimistic tribe. They have sat out recessionary cycles earlier, and they are willing to do so now. Sitting in his office in Central Noida amidst a dead property market, realty broker Rajeev Gupta says: "Yeh mandi hai, Bhookmari toh nahi!" (This is a recession; it is not famine!) **BW**

No Takers

Mumbai and Delhi NCR have the largest unsold inventory among major cities

MUMBAI	194,500
NCR	191,100
BENGALURU	101,500
PUNE	64,800
AHMEDABAD	41,400
CHENNAI	39,100
KOLKATA	37,000
HYDERABAD	33,500
TOTAL	702,900

Figures are unsold units. Source: Knight Frank Report

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