

DNA Money

For southern realtors price realisations are looking better

Date: 01-01-2011 | Edition: Mumbai | Page: 9 | Source: Bureau | Clip size (cm): W: 24 H: 9

Clip: 1 of 2

For southern realtors, price realisations are looking better

Improved product mix and offloading of old stock prop up margins

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Bangalore/Mumbai

After staying stubbornly low for over a year now, price realisation for real estate players, especially in south India, has finally seen an upswing in the last two quarters due to better product-mix, release of old stocks, improving purchasing power of home-buyers and robust demand.

In the last few quarters, price realisations of Sobha Developers, Prestige Group and Puravankara Projects have jumped

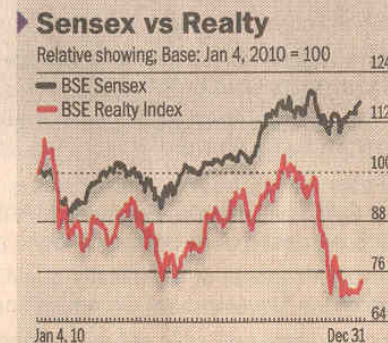
by around 5-20%.

Bangalore-based Sobha Developers saw its average price realisation increase by over 6% to ₹4,000 per square feet (sft) in October and November this year from ₹3,750 per sft in second quarter of this financial year.

Bhaskaran Subramanian, chief financial officer (CFO), Sobha Developers, attributes it to the company's re-entry into super luxury segment.

"We have entered this segment and it has proved beneficial for us. Also, we have started our business in Chennai and have more launches lined up. I expect the going strong even next year," he said.

Irfan Razack, chairman and managing director, Prestige Group, said most builders have seen realisation on old stock shoot



up because of the recent rise in the raw material prices.

"Old stocks are giving us better margins because cost of raw material has moved up in recent times. For us, in the last two quarters price realisation (on old stock) has jumped 20%, he said.

Its peer in the Bangalore market

— Puravankara Projects Ltd (PPL) — also follows the same strategy to realise better margins on its old inventory.

"To hedge input costs, we don't sell all our inventories and keep aside some stock. As and when market picks up we offload them (old stock) and are able to get better price realisation (this way)," Jackbastian K Nazareth, chief operating officer, PPL.

Ashutosh Limaye, director strategic consulting at international property consultants, Jones Lang LaSalle Meghraj, estimates price realisation in Bangalore to have shot up by 3-5% in the current quarter.

"Hyderabad did not witness any rise in realty rates while in Bangalore and Kochi the increase was marginal and is

sustainable," he said.

Interestingly, improved price realisation has come at a time when the real estate sector is grappling with soaring raw material prices and several rounds of interest rate hikes on home loans.

An analyst from a leading domestic brokerage house, who did not want to be named, said despite the recent 10-15% rise in realty prices, they were still 25-30% below the peak of mid-2000.

"Developers are quoting prices in the range of ₹3,500-4,000 per sft. The margins for the developers are around 33% at the Ebidta level. But the margins have been impacted recently due to increase in labour cost by 80% and steel prices which have caused a cost push of 7-8% for all the realty players," he said.

Turn to Page 11

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Date: 01-01-2011 | Edition: Mumbai | Page: 9 | Source: Bureau | Clip size (cm): W: 24 H: 9

Clip: 2 of 2

Southern realtors

Sobha's Subramanian does not expect withdrawal of teaser home loans by many banks to result in a dip in demand.

"The increase in interest rate has been very marginal. So, for a person paying ₹50,000 as EMI, paying ₹51,000 will not make a major impact."

Karishma Solanki, an analyst with Antique Stock Broking Ltd, in her report last week, said affordable prices in markets like Bangalore, Pune, Coimbatore and Thrissur, where Sobha operates, has kept the "demand buoyant."