

Mail Today

Is it right time to buy?

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If conflicting realty signals have kept you from investing in property, here's a guide to help you take a decision

By Rakesh Rai

THE past few months have confounded property buyers. Conflicting signals on realty prices have left them wondering which way to swing — wait for prices to fall or rush to buy before they appreciate.

While the ambiguity in prices of real estate, residential and commercial, can be attributed to local demand and supply, what is a buyer supposed to do? We asked some experts for a reality check on the current market to help you decide your course of action.

RESIDENTIAL SECTOR

Current scenario: While the demand for residential real estate picked up in 2009 due to the launch of affordable housing projects (under Rs 20 lakh), the focus has now shifted to the mid-income segment (Rs 30-50 lakh), which is witnessing the launch of many new projects. As for the prices, following the initial increase in early 2010, these have stabilised in most cities.

In places such as Mumbai, the price appreciation has been checked by the new launches. In fact, the unsold inventory in some cities has prompted builders to offer discounts. Experts believe that if prices go up in the future, absorption of projects may go down, affecting the execution of projects. The trend of low-cost housing with smaller units and adjusted specifications, is also likely to continue.

In the premium housing segment (Rs 1-3.5 crore), the demand has picked up in certain cities. An indication of recovery in this segment is the recent deal in Mumbai, the biggest in the city — Lodha Developers has agreed to pay the Maharashtra government Rs 4,050 crore over five years for the right to construct a multi-storied apartment complex in a central suburb.

"As the economy has grown and income levels have improved, there is a demand for high-quality premium housing," says J.C. Sharma, managing director (MD), Sobha Developers. According to global real estate consultancy Cushman and Wakefield, developers are planning to begin the construction of nearly 8,000 luxury homes in all major Indian cities over the next four years. However, some experts believe that this increase in demand is more visible in metros like Delhi and Mumbai compared with that in south Indian cities.

What to do: Builders have gone into an overdrive launching new projects, but execution is the key. So, before deciding on a location or a project, check as many options as you can. Keep in mind that the builders are willing to offer discounts if you bargain hard. Also, if you are worried that the trend of affordable projects will shift towards premium ones, rest assured because it will continue due to the supply that has been built in this space.

HOME LOANS

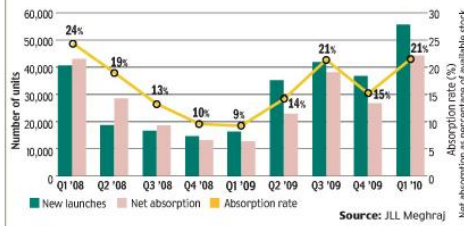
Current scenario: Despite the hike in interest rates by the



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SUPPLY AND ABSORPTION TRENDS

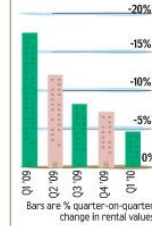
Absorption was bolstered by buyer confidence and launch of affordable housing projects.



Source: JLL Meghraj

RENTAL TRENDS

The average rental values declined 4.7% quarter-on-quarter in Q1 of 2010, down from the 7.3% QoQ decline in Q4 of 2009.



Reserve Bank of India (RBI) in the previous credit policy, banks have not passed it on to home loan borrowers and the current rates are likely to continue for some more time. This is because liquidity is still high and credit uptake from the banks is low. Though the recent 3G auctions and advance tax payments by corporations will suck out some liquidity, the impact is not expected to be significant enough for banks to hike rates. Some banks have even extended the teaser loans that were started a

year ago, while others have hiked the rates marginally (about 0.5 per cent) on such schemes.

What to do: Don't base your buying decision on home loan rates because of globalisation and aggressive marketing lead to smaller rate cycles, volatile patches are bound to be appear during the loan tenure.

COMMERCIAL SECTOR

Current scenario: Commercial property is an investment for

only a small percentage of individual investors, attracting buyers because the rental returns are higher than in residential property. Though rentals had fallen over the past year because of oversupply in the segment, they have begun to stabilise since the beginning of this year. However, the decline continues in some pockets. This situation is likely to continue because most of the expected supply in 2010 (nearly 4.8 million sq ft of retail space) is in advanced stages of construction.

In addition, given the prevailing uncertainty, most tenants are opting for revenue-sharing agreements, implying that the rental returns may not be stable. Some retail projects could also be converted into office or residential space.

What to do: Unless you get the commercial property at an attractive price, it's better to avoid it for some time. Invest only if you can hold it for the long term as rentals are expected to pick up only by early next year.