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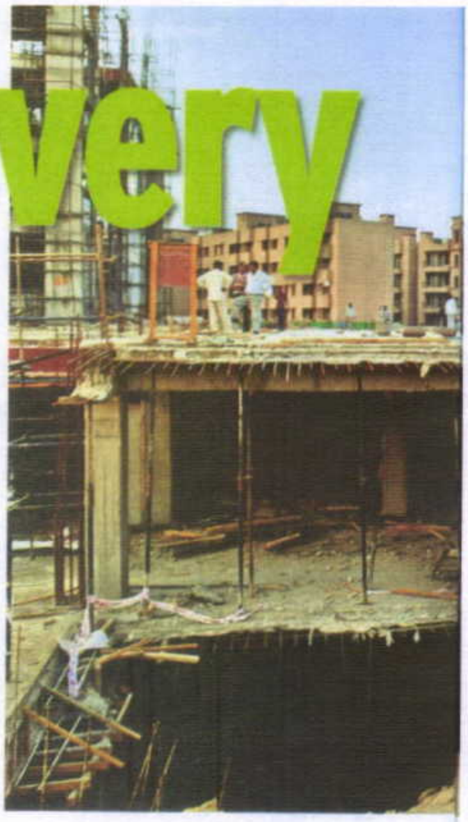
Recovery

Still Fragile and Patchy

Two years after the property bubble burst, developers are back with cleaner balance sheets and projects that range from no-frills homes to swanky towers. But customers are not biting. TEAM BT



July 2009: Vishal Sharma is the typical middle class Indian home buyer. Careful, diligent and financially savvy. Working at a Noida-based software services firm, Vishal and his wife Kavita, a school teacher, had been on the hunt for an apartment for over two years. The summer of the Year of the Ox proved lucky for them. Office developer 3C Company's maiden residential project, Lotus Boulevard, was coming up in Noida.

"I figured that since it was their first project, they would be extra careful in delivering quality and the bottom line was the price," says Sharma, 31. After a discount on the launch price of Rs 2,850 a sq. ft., the price of the two bedroom apartment he booked worked out to around Rs 46 lakh. The clincher: Sharma signed up for a loan from LIC Housing Finance at 8.9 per cent interest fixed for the first three years.

November 2009: Sobha Developers convened a meeting of some 50 leading property dealers in Bangalore just before the launching of Sobha Cinnamon, a 200-apartment residential project on Sarjapur Road, a spur from the city to tech-to-shampoos behemoth Wipro's headquarters. Sobha was meeting dealers to understand if they would be able to sell flats in the pre-launch period

Housing Supply At A Three Year Low...

Inventory at 282 mn sq. ft.; down 28% from peak*

House owner at last: Vishal Sharma considers himself lucky he bought an apartment in Noida for around Rs 46 lakh in July 2009

...And Sales Rise But Lag 2007 Peaks

Monthly absorption by number of units*

*Aggregate of NCR, MMR, Bangalore, Chennai, Hyderabada and Kolkata

Source: PropEquity data

GRAPHICS BY KULDEEP

at a price of Rs 3,280 per sq. ft. The mood was one of scepticism. But when bookings opened in January, bulk of the apartments got sold out in three months — at Rs 3,352 a sq. ft.

June 2010: The 3C Company has launched a second project in Noida priced at Rs 3,500 a sq. ft. Sharma wonders if he would have bought at this rate. "Prices have increased earlier than they should have. I have had my share of luck," he says. Between June last year and this year, prices at Sobha's Chrysanthemum project in North Bangalore, too, have risen by Rs 500 a sq. ft. Customers are not hung up on discounts now, insists Sobha Managing Director J.C. Sharma.

Is the Great Indian Home Buyer back in the market? Is it time for fence-sitting customers to buy? And, importantly for realty companies (and their investors), is it back to the boom days of 2007 when new housing projects would get sold out within a month flat in the big cities? Is India at the edge of a step-up era where realty — residential through office, retail through hospitality — comes into being as a robust asset class?

ARUN NANDA
Non-Executive Chairman, Mahindra Lifespaces

"Real estate industry players should not price themselves out of the market"

NISHIKANT GAMBE

The answer to each of these questions, *Business Today* found through reporting on the ground backed with research and conversations with independent consultants, is a nuanced yes. And, a nuanced no.

The visible signs first: over the past one year, thousands of buyers across the country have found prices reasonable enough to buy apartments and property, after the economic meltdown of end-2008 and early-2009 resulted in a drastic fall in home sales. Brokerage Credit Suisse estimates monthly apartment sales, in terms of million sq. ft., today, have jumped to 2.5 times from the low of early-2009 and steadily moving up to close the 24 per cent gap from peak sales seen in the second half of 2007.

Low Inventory, High Price

The renewed interest in housing, however, has a disproportionate impact on prices this time around. Because these sales were not matched with new supply or property launches. Data from PropEquity, a property research firm, shows house inventory levels at realty companies at a three-year low in many cities. Aggregate available supply fell by nearly one-quarter to 282 million sq. ft. in March 2010 from the year-ago month, Credit Suisse analysts Anand Agarwal and Abhishek Bansal noted in a May report. In other words, prices were being driven up by fewer apartments available in the market and, perhaps, not because of fresh demand.

RAJIV TALWAR
Executive Director, DLF Group

"There is no price bubble in India. It is just constrained volumes"

That seems evident in a city like Bangalore where rough calculations show that stamp duty collections on land deals in May, the latest month data is available for, have nearly doubled to Rs 3,700 crore from Rs 2,000 crore a year earlier. But "the number of documents registered has not increased as much as revenues have risen, indicating that registration is happening at higher valuations", concludes S.N. Jayaram, Inspector General of Registration and Commissioner of Stamps, Karnataka.

The rapid price rise in the past months has indeed rattled prospective buyers pushing them back to sidelines and resulting in a drag on sales. For instance, in

Mumbai, parts of Bangalore, and the National Capital Region, prices have shot up by as much as 30-40 per cent. At these elevated levels, obviously, buyer resistance is creeping in. "The volumes have certainly dropped in some markets by 15-20 per cent, if not more," says Pranab Datta, Vice Chairman and Managing Director of property consultancy Knight Frank. "Enquiries are still very high, but fewer transactions are being consummated."

In Chennai, which is a relatively more stable real estate market, T. Chitty Babu, Chairman and CEO, Akshaya Homes, and Tamil Nadu chapter President for industry lobby Confederation of Real Estate Developers Association of India, puts soaring prices to rising input costs. "Labour costs have escalated. Earlier it was a quarter of the builder's cost but now it is already up to 35 per cent, and in two years will reach 50-60 per cent," he says. Expensive raw material and a 10 percent service tax levy only feed into the spiral.

Even so, the risk from such bullish pricing behaviour by some real estate companies, says one expert, is that several realtors and wannabe developers who are planning to enter residential realty attracted by the current high prices could run into severe pricing pressure when their projects are ready. For instance, says Anurag Mathur, Managing Director at realty consultant Cushman & Wakefield, many realtors have converted their commercial projects into residential ones to reduce their debt-equity ratio. "Given the long-term nature of commercial projects, the balance sheets of realtors get stretched. On an average more than 70 per cent of future developments have been earmarked for residential development, since the asset class has showed the greatest resistance to the downturn on the back of end-user demand," he says.

Structural Change

Other changes have swept the real estate market in the last two years, too — some helping the finances at the builder firms. One is the increasing share of low rise and so-called affordable housing projects in the market. Take BPTP. The company, says its Head of Marketing Amit Raj Jain, re-aligned its residential project portfolio to low-rise group housing and launched three projects in Faridabad: Park Elite Floors, Park Elite Premium and Park 81. The result was that in the six months between April and September 2009, the company sold a record 7,019 apartments, equivalent to over 7 million sq. ft. The reason for the hot sales was simple. The homes were priced between Rs 16 lakh and Rs 30 lakh — yes, the apartment size was at times halved — far lower than BPTP's earlier projects, which were priced in the range of Rs 40 lakh to Rs 1 crore.