

REALTY SECTOR

Realty still stuck in house of correction

The RBI's rate cuts alone may not stimulate the sluggish residential market. Developers may have to further cut prices to bring buyers back into the market. Meanwhile, as a result of drastic fall in home sales and higher capital and construction cost, most developers have reported decline in revenue in September quarter. The RBI rate cut has encouraged banks to lower the interest rates for home loans. A lower home loan rate will increase home buyers interest in the market.

Still the home rates would decrease but the affordability among investor have declined at greater pace as compared to 2003-04. In 2003 -04 the interest rate was lower.

The buyer's decision for home depend 60% on interest rate, 30% on property prices and remaining 10% on sentiments. The home loan rates coming down will bring down the EMI, but still the Emi will be higher as compared to 2003-04.

Downfall in sales of some realty companies.

The squeeze in the real estate market is now getting reflected in realtors earnings figure. India's largest real estate developer.

- DLF reported a 4% decline in net profit at Rs 1935 crores.
- The second largest realty firm, Unitech, reported 3% decline in sales at Rs 983 crores and 12.6% lower profit at Rs 358 crores.
- Parsvnath's sales fell 45% to Rs 217 crores, and profit dropped 78% to Rs 22 crores.
- Omaxe's revenue declined 70% to Rs 204 crores and profit fell 87% to Rs 20 crores.

The biggest issue for realty firms is liquidity. The sales have dried up and banks are refusing to lend.

Increase in FDI Flows

Foreign direct investment (FDI) in India increased 259 percent in September to \$2.56 billion, compared to the same month last year, with Mauritius being the largest investor

FDI for the same month last year stood at \$713 million. Construction activities including roads and highways attracted \$1.64 billion, followed by housing and real estate at \$1.62 billion, and computer hardware and software at \$1.36 billion.

REALTY SECTOR

The top investing countries in terms of FDI during April to August have been Mauritius having invested \$5.27 billion, Singapore at \$1.72 billion, the US at \$1.15 billion and the Netherlands at \$580 million.

Change in strategies

Many real players are changing their focus and business strategies. Even real estate major Unitech has changed its product portfolio and included more mid-income housing projects to push up sales. many realty companies are focussing more on mid-income housing, enhancing self-liquidity by offering incentives and are lobbying with the Government and banks to catalyze debt funding to the sector at lower interest rates.

In fact investment in the real estate sector remained subdued in the second quarter amid global economic slowdown. In the last one year, the inflationary trend has increased the input costs, thereby putting pressure on margins. Global slowdown and financial crisis in US and European countries has put pressure on liquidity in India as well. This has resulted in increase in interest cost further affecting all the industries including real estate sector. Demand for real estate asset classes like residential is still strong but the consumer is no more willing to accept irrational pricing. Hence, a correction of prices along with reduction in home loan rates is most likely to boost up absorption.

International hotel chains have tied up with real estate developers like DLF, Emaar MGF, Unitech and Parsvnath's to set up five-star hotels. Out of a total of 1.14 lakh proposed room supply, only 58% or about 66,000 rooms, will actually be developed over the next few years. However, cities like Agra, Hyderabad, Jaipur and Mumbai saw a negative growth in room supply in 2007-08 as compared to 2006-07. The last few months have seen a demand-supply mismatch in tier II cities like Bangalore, Pune, Hyderabad and Chennai. Room rates too have fallen steeply in these markets.

Growth in realty sector

Indian realty is growing at 30%, particularly in Tier II and Tier III cities. The \$15 b realty market is expected to reach \$ 90 b within the next 8 years .In the residential are price have also got affected the price everywhere has reduced. But this sector still have some correction but the rates of property are going to go up in metro cities as well as tier III cities as the infrastructure developments are in demand in India.

REALTY SECTOR

Conclusion

The realty sector will have a correction in price. The realty price will go up to \$90 b within next 8 years. The rate cut in PLR will not help the realty players. As the demand and supply in this segment need to be checked. The lower interest rate may not bring buying into scene as the affordability of investor is getting reduced, and when we compare the interest rate and prices of property in 2003-04 the rates were low as compared to this year. We expect correction in prices of property. We have also mentioned above that few companies in realty segment have reduced the bottom line and they have changed their strategies for recovering the losses. And they are coming with new projects in hotel industry they have tied up with international chains for further growth.

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