Bangalore's real estate scene turns sour after 4 years

Anil Urs / Chennai/ Bangalore March 22, 2008

Real estate prices in Bangalore, one of the fastest growing metros in the country, have peaked and in some cases have come down in the present year, after riding high for four years.

Samira Chandra Gupta, regional director, Colliers International, sees “no upward movement of prices in the central business district for the last four to five months.”

But the scenario is even worse in the eyes of Shivaram Malakala, executive director, Habitat Ventures. He finds it “generally flat” and notes that “in many localities prices have even reduced sharply”.

The worst-hit seems to be “some peripheral areas and also to some extent the premium or super luxury residential segment.”

The immediate cause of this change in sentiment is the supply which has far outstripped demand. The latter has been affected by both the dip in the stock market and the overall economic slowdown.

While the stock market bears have driven away the speculative investors, the slowdown has caused a change in the attitude of “IT sector employees who have become less demanding in choosing homes,” said Gupta.

The immediate outlook is bleak to Malakala who expects the prices to be “at best flat and may even move further down up 10 per cent to 15 per cent.”

Gupta, on the other hand sees a silver lining to the IT slowdown as “Bangalore is no longer IT-dependent.” She expects “other sectors like pharma, R&D services and manufacturing companies to drive demand.”

While perceptions differ somewhat on the slowdown, there is unanimity that the lower interest rates will lead to improved demand.

This is because “second and third home buys, which were common, dried up in the last one year on interest rate hardening. These may come back as the stock market may seem too volatile,” feels Gupta.

When interest rates are low lender attitudes are also different, according to Malakala. “Earlier banks were flexible on rating home buyers, with some banks moving up sanction limits 10 per cent to 15 per cent based on the comfort factor. Now that is not there. With rates going down, this may come back.”

Few are willing to hazard a guess as to when the market will look up again. Right now everyone is in a wait-and-watch mode, looking out for the right ingredients like low interest rates and the right price to buy.

Those who are willing to hazard a guess, like Malakala, see a reversal coming only “in the medium term, say two years to three years”.

The slowdown will not affect progress with new projects. Sector watchers say such a scenario always throws up three types of developers.

One, those looking to exit from the land bought at high rates, two, those looking to make use of land bought at low prices, and three, value buyers seeking to take advantage of the overall scenario. So real estate activity is down but not out.