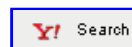




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## High interest rates, prices stunt real estate industry

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High interest rates and overheated asset prices have cooled the super-charged growth in real estate even as a demand-supply mismatch continues in the Indian property market.

A cross section of opinion in the real estate sector suggests that overall prices have stagnated or declined 10 to 15 per cent in the past six months in prime commercial areas and are expected to dip 10 per cent more in the coming months across key Indian cities. Stagnation and fall in NCR.

“We have not seen any major movement in prices of office buildings over the last three months. In fact, prices in the central business district of [Delhi](#) have remained hard. Rentals in the suburbs have stagnated,” said Pradeep Jain, chairman, Parsvnath Developers.

Rentals of prime commercial buildings in the New [Delhi](#) central business district, which covers the area around Connaught Place, stand at their December prices of Rs 330 to Rs 375 per square foot (sq ft).

At Nehru Place, the capital’s secondary business district, commercial rentals have been constant at Rs 220 to 260 per sq ft during the same period, say property consultants.

In contrast, rentals grew 40 to 50 per cent in the National Capital Region in calendar 2007, according to a recent report by property consultancy Jones Lang LaSalle Meghraj (JLLM)

In the emerging boom towns [Gurgaon](#) and Noida, which command rentals between Rs 50 and 200 per sq ft, have seen a 5 to 10 per cent dip in commercial rentals in the last three months, according to consultants.

### Slowdown in [Mumbai](#)

Last week, [Mumbai](#)’s city planning agency — the [Mumbai](#) Metropolitan Region Development Authority (MMRDA) — failed to get bidders for two plots in the Bandra-Kurla Complex (BKC), the city’s new business district. Analysts say this is a clear indication of a slowdown.

“The days of super-high growth are over. Now developers are only going for those properties which are reasonable,” said Abhishek Kiran Gupta of JLLM.

A landmark office tower at Worli, which commanded rentals of Rs 550 per sq ft, has seen a decline to Rs 375 per sq ft, said a city-based property consultant. He added that rentals in BKC, which had gone up to around Rs 450 per sq ft, are likely to soften by Rs 75 to Rs 100 per sq ft.

The addition of new office space over the next six to eight quarters is expected to lead to a further decline in rentals. Nearly 15 million sq ft, the equivalent of the BKC, of office space will be added in [Mumbai](#) by end-2008, the NCR is expected to see an addition of 7 million sq ft of office space.

“Rentals will not grow by 30 to 40 per cent now as was the case till now. Rates in the prime city centre areas will not fluctuate much,” said Gupta, adding: “Rentals in the suburbs will not grow more than 8 to 15 per cent.”

Given that economic growth is expected to slow in 2008-09, experts say reduced demand could see more supplies coming into the market.

“Companies book and lease space keeping three- to five-year horizon. But given the slowdown in economy, they tend to scale down their demand projection of space. Reduction in demand means more supply hitting the market,” said Jai Mavani, executive director, KPMG.

### **Slump in housing**

Residential demand, which is more sensitive to interest rate movement, has cooled in recent times, though developers are reluctant to admit this. However, it is a fact that property transactions have dropped and the rate of new home loan disbursals has also fallen.

The State Bank of India (SBI), the country’s largest lender, saw a home loan portfolio growth rate of 16 per cent in 2007, slower than the 20 per cent growth witnessed in 2006.

SBI has cut home loan rates twice since January 2008, a bank executive said, adding that there was no visible growth as yet in the home loan portfolio. “Property prices are still high and people still cannot afford flats in big cities,” he added.

“Apartment sales have gone down by 20 to 30 per cent in [Mumbai](#). Developers are doling out goodies like stamp duty relief, free parking and interiors to boost sales,” said Rajiv Sabharwal, head, retail assets, ICICI Bank.

### **Crucially, developers are not cutting prices.**

“Developers can not cut prices because once you do that, it signals the start of a downward spiral. They are holding on to the prices to maintain the momentum,” said Rajesh Mehta, a leading property consultant in [Mumbai](#), adding: “April and May are the key months as far as property deals go. If transactions do not pick up, prices of apartments will fall at least 10 to 15 per cent”.

Traditionally a stock market boom has a direct impact on real estate prices. However, the near 5000-points fall in Bombay Stock Exchange Sensex from its peak in January 2008 has wiped out much investor wealth.

This reversal of fortunes is expected to have an immediate impact on residential real estate prices. The last two or three years have seen prices escalate across the country.

Despite anecdotal evidence of prices falling marginally in recent times, the fact remains that supply of apartments and built up plots in the developed areas of [Mumbai](#) and [Delhi](#) is scarce.

“New residential projects have slowed down. Only big developers are launching new projects. Buyers are also waiting whether prices will come down,” adds ICICI’s Sabharwal.

Speculators have exited many areas like Greater Noida, Kundli and even some parts of [Gurgaon](#). JLLM Chairman Anuj Puri believes that investors, who comprise nearly 20 per cent of property buyers, are staying out after the stock market crash. “The absence of speculator interest has led to a 15 to 20 per cent correction in areas like [Gurgaon](#) and Noida,” he said.

### **The scenario in Cyberabad**

The southern city has seen a change in the nature of buyers. Where investors dominated before, more and more end-users are buying properties, says I Syam Prasad Reddy, managing director and chief executive officer, Indu Projects Ltd.

“Hitherto, demand was driven both by investors and end users. Currently there is a substantial drop in investor interest, but there isn’t any slow down and demand is only flat”, he adds.

### **All quiet in Silicon city**

“No upward movement of prices has been evident in [Bangalore](#)’s commercial business district for the last four to five months. Residential realty prices have stagnated due to an increase in supply, much more than the demand,” said Samira Chandra Gupta, regional director, Colliers International.

Others concur with this view. “Prices have been generally flat. In many localities prices have fallen sharply. The reduction is

greater in peripheral areas and to some extent in premium or super-luxury residential properties,” said Shivaram Malakala, executive director, Habitat Ventures.

On the outlook for [Bangalore](#), Collier’s Gupta said demand from the IT sector may be impacted by the US slowdown, but sectors like pharma, R&D services and some manufacturing companies would continue to drive demand. Hardening interest rate over the past year have seen second and third home buys, which drove the markets, dry up.

Like elsewhere, prices are expected to remain bearish, with Malakala saying they could fall further by up to 10 to 15 per cent.

Source: <http://www.business-standard.com>

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1. [1 riathareja](#) Apr 10th, 2008 at 10:38 pm

The number of homes available for sale has increased sharply in some of the nation’s hottest real-estate markets. Several factors point to a possible cooling of the market. Mortgage interest rates have been edging higher in recent weeks, raising the cost of purchasing a new home and knocking some potential buyers out of the market. Additionally, banking regulators have begun to raise questions about whether mortgage lenders are being prudent enough — which eventually could prompt some lenders to tighten credit standards. In addition to Inventory, affordability, and mortgage rates, we noted other factors helping to identify the slow down: Prices paid (relative to asking) had slipped, and Homes were on the market longer. Lastly strong Condo sales typically occurs late in the RE cycle. That’s on top of the anecdotal evidence coming from Real Estate agents. Since banks have shut their doors, small and medium builders are passing their hat around aggressive non-banking finance companies and MFs who subscribe to the bonds issued by the property firms. The fund houses have quietly rolled over the debt, fearing that the news of default could affect the returns of their schemes and hence, scare away investors. However, eventually, builders will find out, as others in different markets before them have, that supply outstrips demand. This will lead to a leveling-off of prices and finally, once the full scope of the problem has been recognized, to rapidly falling prices of both land and houses. For more - [realydigest.blogspot.com](http://realydigest.blogspot.com)

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