

Why residential property prices never fell in cities.

Amit Shanbaug & Sakina Babwani, Economic Times Bureau, Jan 16, 2012.

The last time Bharat Sharma went looking for a house that fit his budget of Rs 40 lakh was in January 2011. Prices were high then and so were interest rates. The same month, he came across reports about a possible correction in property prices in the next one year. The arguments were compelling. Property prices and interest rates were high, making EMIs unaffordable. Income growth had slowed down, job creation was on the wane, inflation was high and there was oversupply in the market. With everything pointing to property prices coming down, Sharma decided to wait.

He is now back in the market looking for a property, with a slightly higher budget (Rs 42 lakh). But contrary to his expectations, prices have not gone down. In fact, they have risen. "The project that I was considering is now sold out and the others launched recently in the same locality are quoting at higher prices," he says.

Why did property prices defy what the market pundits were expecting? What prevented them from falling?

Continuing investor interest

Investors are the lifeline of a cash-strapped developer. They are the ones who are keeping builders afloat even now.

Pankaj Kapoor, managing director of real estate research firm Liases Foras, explains that compared to 1995, when there was shortage of liquidity in the market which led to a crash in the real estate sector, the situation now is quite different. "There are hardly any avenues which offer you safe returns today. The stock markets are volatile and gold prices are also at an all-time high. So, investors look at the real estate sector to park their excess funds. It is not the developers who would have to take a price cut but the investors," he adds. According to Kapoor, it is the investors who are instrumental in the property prices staying firm.

"Besides this, there are a lot of venture capital firms which have bought huge stakes in realty projects. For the developers, it is a win-win situation. Since they have already cut down on their losses, they won't be losing much even if the rates come down a bit," he adds.

NO SIGNIFICANT CORRECTION IN 2011

Despite the buzz about a correction, prices have not gone down significantly in most locations.

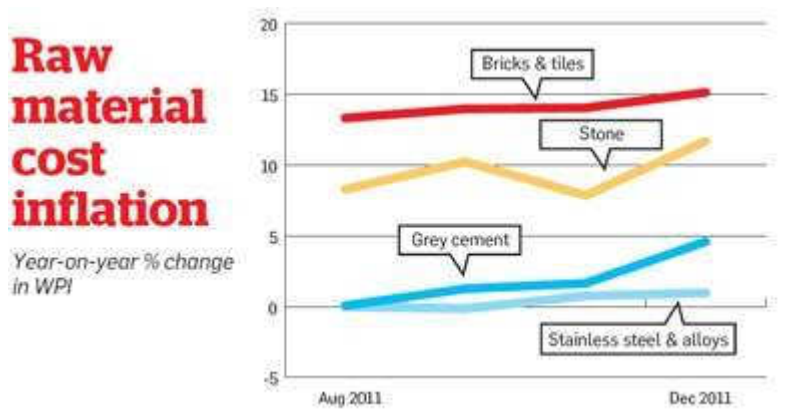
City	District	June 2008	June 2009	June 2010	June 2011
Bangalore	Malleswaram, Rajajinagar	4,500 - 6,000	3,900 - 5,400	3,800 - 5,400	4,300-6,200
Chennai	Velachery	3,800-4,200	3,800-4,000	3,500-5,000	3,500-5,300
Hyderabad	Banjara Hills	6,500	5,800	6,500	6,850
Mumbai	Bandra (W), Khar (W), Santacruz (W), Juhu	28,000-32,000	20,000 - 24,000	24,000-31,000	24,000-32,000
Delhi NCR	Defence Colony, Gulmohar Park, Hauz Khas Enclave, Safdarjung Development Area, Panchsheel Park	24,000-25,000	20,000-23,000	24,000-32,000	27,000-40,000
Pune	Koregoan Park, Bundh Garden	7,000-12,000	6,000-9,000	6,750-10,500	9,000-13,000
Kolkata	Ballygunge, Queens Park, Rainy Park, Gurusday Road	8,500-10,000	8,300-9,500	9,500-11,500	10,000-17,000

*Prices in ₹ per sq ft. Source: Cushman & Wakefield

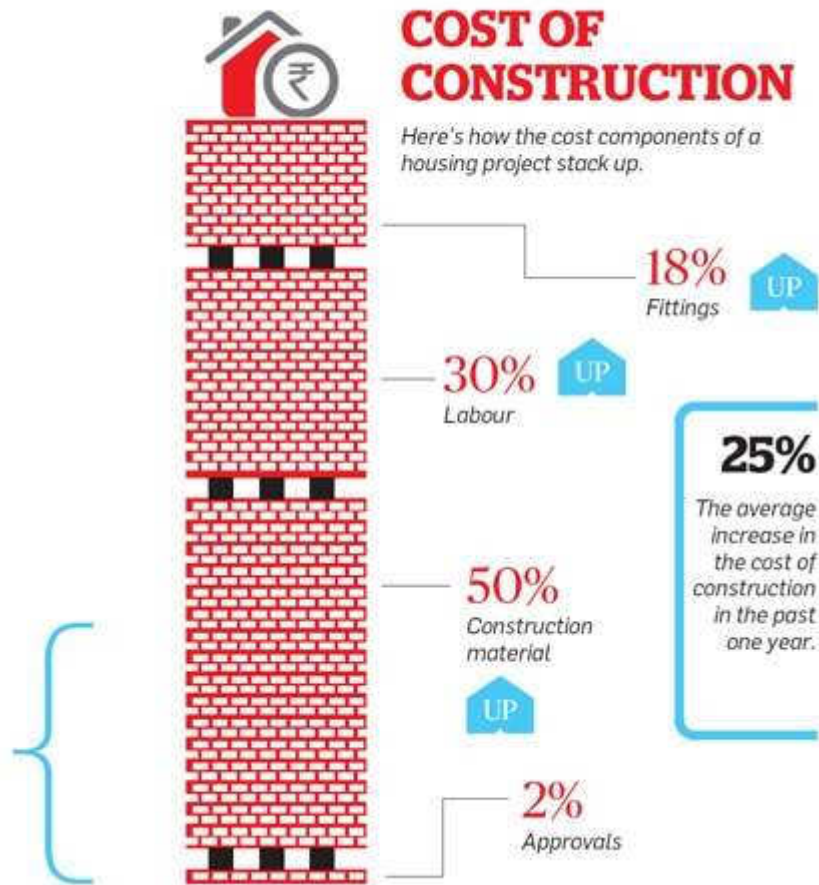
However, in some cases it is also because of these investors that the builders cannot reduce prices substantially. "A big investor who puts in money at the pre-launch stage of the project is also looking to exit at a higher rate later," says a Gurgaon-based real estate broker. "If the developer reduces the ticket price, the investor will not be able to sell his properties in the market and, therefore, will not invest in the builder's projects in future," he says.

Restricted supply

One of the main reasons for residential property prices correcting only marginally in some locations or not at all in most, was the restricted supply of new projects. According to real estate consultancy firm Knight Frank, the pace of new project launches was severely crippled in 2011.



During 2010, roughly 3.61 lakh residential units were launched across the top seven cities of Mumbai, Delhi NCR, Pune, Kolkata, Bangalore, Chennai and Hyderabad.



However, only 1.72 lakh units came up in 2011, a decline of 52% over the previous year. The decline in new launches was sharper in certain locations, such as Mumbai, where prices were high and buyers few. For instance, just about 19,470 units were launched in Mumbai in 2011 compared with the 54,968 housing units built in the previous year.

While fewer new launches were one reason for the restriction in supply, project delays also played an important role. The situation is likely to continue for some more time. According to property research firm PropEquity, nearly half of the 9.3 lakh under-construction residential units in the country, scheduled for delivery between 2011 and 2013, are likely to be delayed by up to 18 months.

While reducing the number of new launches is a natural reaction from the builders in a slow market, developers also restrict the number of projects in the market by other means. Some builders have recently started inserting restrictive clauses in the sale contracts that prevent buyers from selling the house before a specified time (usually one year of buying). While the builders claim that they are doing this to prevent speculators from buying into the projects, the real reason is that the developer does not want the housing units to be out in the market at a lower price (by the seller) in times of a slowdown.

"This is primarily to have control over the time period before their property comes back in the market for sale. It would also deter speculators to offer the property at a lower price than what the developer is offering," says Ravi Goenka, advocate at Mumbai-based Goenka Law Associates.