

**Luxury homes on hold**

Mona Mehta July 06, 08

It's a dream going sour for real estate developers. With demand for housing stagnating, high costs of construction, a major liquidity crunch in the banking system and high interest rates on loans, few seem to be opting for high-end properties. This is prompting real estate players to put ambitious plans on the backburner.

Says Hemant Shah, chairman, Akruiti City: "With input costs rising tremendously, we plan to develop luxury apartments between South Mumbai and Dadar in Mumbai only after three years now." Currently, luxury apartments are in very short supply. India has an existence of just half a percentage of luxury homes in comparison to the global markets. But only if developers are able to provide luxury apartments at affordable prices, will the luxury home market take off. There are certain policies that are not allowing free liquidity in the market for real estate funding. In fact, low cost housing will continue to get a boost and this category of development will continue to grow at a faster pace compared to luxury homes till the next three years.

Currently, Tulip Group sells luxurious three bedroom flats at Rs 3,000 per sq ft in Gurgaon. Mumbai-based Hiranandani Constructions is all set to build new luxury apartments in the Powai and Thane estates like Richmond Tower (the pride of Hiranandani Gardens), Glendale at Powai, Canary and Brookhill at Hiranandani estate, and Amanda and Gemini A at Hiranandani Meadows, Thane. Dewa Projects Private Ltd, a venture promoted by a group of NRIs based in Kuwait, plans to build a super luxury apartment complex on Marine Drive in Kochi, wherein each three-bedroom apartment will be priced over Rs 3 crore. The company is investing Rs 3,000 crore for the Kochi project which will be completed by 2011, its officials added. Industry experts opine that wherever developers quoted high correction, the prices shot up suddenly. Currently, real estate developers pay interest rates as high as 18% on funds, due to their shortage. In fact, a major price correction is expected in the real estate market in the next three months. Land owners and builders are holding on to the selling price of their properties due to the ongoing monsoon, but post-monsoon, prices will nosedive 15-20%. Builders and property consultants say the monsoon season is considered to be a lean season for the real estate market when hardly any buying or selling of properties takes place, denting the market. After the monsoons are through, land acquisition costs will dip by 15% to 20% in the next three months, and as a result, land owners will be able to enter into deals with 20% less cost, which is when the real estate market will see a price correction.

While developers are optimistic that the current phase is temporary and the market is likely to perk up after the general elections, they are also seeking alternative funding methods including private equity players to fund their projects. Says Niranjana Hiranandani, managing director, Hiranandani Constructions: "This is the right time for us to enter into new land deals as there is an expected correction in the economy. We would then look at setting up luxury apartments as we feel that the liquidity crunch in the banking system will not have a major impact in the long term on the real estate market."

Further, Hiranandani explains that there are many people who are still willing to invest and the years 2008 and 2009 will see more people investing in the real estate market. Hence, India now needs more construction of luxury homes as well, at affordable prices. This is despite the fact that the cost of construction is going up due to rising inflation and limited supply, he points out. Earlier, Hiranandani had raised funds to the tune of \$500 million internationally through UK's Alternative Investment Market. This means that the company is sitting on good cash reserves. On the expected correction, Rohit Rana, head, marketing and communications, Sankalpan Group, points out that the expected correction will motivate major builders to acquire sizeable land banks of smaller builders whose share prices at current levels are cheap. Besides, major builders will also come up with many luxury home projects. "We feel that the real estate market will stabilise by October 2008, which will be followed by a consolidation phase from October 2008 to March 2009. It is only after the general election in May 2009 that the market will see an upward trend," he adds.

Anuj Puri, chairman and country head, Jones Lang LaSalle Meghraj, also points out that the private equity route is doing well and will continue to be strong. There are various sources of investments into real estate. At first is a major slowing down of presales. Secondly, there has been a sudden disappearance of speculative investors apart from very little bank debt, and as a result, there's little liquidity left for realty developers.

Abhishek Lodha, managing director, Lodha Group, too believes that real estate prices will continue to be stable in Mumbai, although markets such as Delhi and Bangalore have started witnessing a decline in prices. In fact, markets like Chennai have already started witnessing a 20% correction in prices. "There is a possibility that luxury apartment development will start taking off well in this market first," he opines. According to Pranay Vakil, chairman, Knight Frank India, "There are temporary fluctuations which exist in certain spheres, like the office rentals, where price correction has taken place. Some overheated speculative markets have already seen a price correction by about 25% to 30%. Certain malls have witnessed a dip in rentals as well. As far as the land market is concerned, foreign direct investment (FDI) is still going into land. A further correction is expected in the next three months as well."

Rana Kapoor, managing director and CEO, YES Bank, believes these days, most real estate developers are opting for funding from private equity players for specific projects. These include setting up luxury real estate projects, as banks are charging high rates. Also, the traditional method of getting funded through banks is getting constrained, as the capital adequacy ratio and provisioning requirements are high on real estate exposure. This is one sector where banks have to exercise caution. "In the long run, we believe, demand will soften and there will be a serious price correction in real estate properties," Kapoor says.

A banker at ICICI Bank says: "We are not charging interest rates as high as 18% from real estate developers. It is much lower, and we fund only top real estate developers, not all. If real estate developers are acquiring funds for such high rates, then it might not be for long-term loans, as they would find it difficult to repay. Yes, they are looking at other informal sources like non-banking financial companies (NBFCs), but they too are charging high interest rates. There are banks who offer better rates to those developers with whom they have a stable relationship and a track record." There are builders who strongly believe that there is a major liquidity crunch in the banking system only on project approvals. Says Parag Munot, managing director, Kalpataru Properties: "We now expect land deals to happen more realistically. Interest rates in general have increased and it has also impacted real estate funding. But projects that have received all clearances and approvals still find it relatively easy to get bank funding. Luxury homes do have a future, but, in the long-term."

A senior banker at a private sector bank, who doesn't want to be named, says "with banks charging exorbitant interest rates from real estate developers, the latter is opting for other informal sources like (NBFCs), other corporates and mutual funds, thereby getting the necessary funds from them. A few of them are also approaching moneylenders, in rare cases, to get funding for their projects. However, most of the market players believe that this liquidity problem is temporary in nature, so most are willing to take a hit on their margins by getting funded at a high cost."...