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# Will property prices fall?

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For many, owning a home is a distant dream. However, events and trends taking shape now could soon turn that dream into reality.

The government's move to clamp down on black money hoarders through the ban on Rs 500 and Rs 1,000 notes is expected to have a cooling effect on certain pockets of the residential market. Many developers, resellers and homebuyers insist on hard cash as a component of payment in real estate deals. Demonetisation is expected to deal a body blow to this practice. Another likely side effect is a downward pressure on the interest rate structure. This would come as a relief to people who can't afford high EMIs.

Many developers are also aggressively turning towards the affordable housing segment. This opens up another avenue for those priced out of the housing market. With many states likely to enforce the Real Estate Regulatory Act, homebuyers can expect more transparency. We outline the opportunities these developments present for homebuyers.

## What awaits for housing?

Experts believe the housing market will experience a lull in the coming months. Homebuyers can expect property prices to come down in pockets. As CARE Ratings points out in its report, developers are already grappling with slow sales, which is leading to rising inventory. Given the growing uncertainty and negative impact on demand, people are likely to postpone plans to buy property, which would increase inventory levels. Developers and sellers could be compelled to cut down prices to drive sales.

Experts say the secondary market will be impacted, since it deals with a significant amount of cash. However, projects undertaken by reputed developers in the top eight Indian cities will remain more or less unaffected. This is because buyers who invest in such projects take the home loan route, and all transactions are carried out through legal channels. Home buyers can look forward to better pricing in the secondary or resale market. Excess inventory in this segment has already put a lid on prices, making possession-ready properties a more viable option for buyers.

For those keen on buying directly from the developer, options might be limited. However, the demonetisation could be a boon for those looking for deals in the high-end or luxury housing segment. A large cash component is the norm in this segment. But with the government clampdown, sales are likely to dip, leading to price cuts.

### **Home loan rates will soften**

Due to demonetisation, a large amount of cash in circulation will be brought within the purview of the formal banking system. Since this will reduce the dependence of banks on higher cost borrowings, they are likely to slash the marginal cost of funds based lending rate (MCLR). This will accelerate a fall in home loan interest rates, since CASA ratio is used in computing MCLR.

Taking older Rs 500 and Rs 1,000 notes out of circulation is expected to have a longer term deflationary impact as it will bring about a slowdown in high-ticket purchases. This coupled with the adverse impact on real estate and informal sectors, may lead to slowing of GDP growth. This will probably lead to a softening in inflation, which may prompt the RBI to carry out interest rate cuts and give more leeway for banks to lower lending rates.

### **Budget-friendly alternative**

In real estate, there has been a shift in demand from big ticket purchases led by investors, to purchases by end-use customers, who now constitute almost 90% of aspiring home buyers. As a result, builders are increasingly shifting their attention to the affordable housing segment. Data from Cushman & Wakefield shows the number of launches in this segment in the first half of the year has doubled from the same period last year. Affordable housing is meant for middle-income families who can spend ₹30-50 lakh. These are mostly located on the peripheries of the bigger cities.

To keep costs under check and improve affordability, developers typically offer units in 1RK and 1BHK size, with a reduced saleable area of up to 350 square ft. for 1RKs and up to 500 square ft. for 1BHKs. The average size of affordable housing units launched in the first quarter of 2016 was reduced by 11% from those launched in the corresponding period in 2014. Many projects in this segment are coming up in the form of integrated townships, which attempt to provide maximum value for money to buyers. With more serious developers entering the segment, there has been a distinct improvement in product quality .

### **Is it right for you?**

If you resent shelling out rent, but do not want to take on the burden of high EMIs, affordable housing could be your way out. The government has introduced tax benefits for the developer and homebuyer. There are also several schemes aimed at promoting publicprivate partnerships for the development of affordable housing.

According to experts, affordable housing is better suited for end use, than for investment. Since the scope for price appreciation is limited, homebuyers should consider various aspects before opting for affordable housing. Only focusing on the price is a bad idea, as this can trick the buyer into investing in an inferior project, or one located in an area with little connectivity .

### **Better than renting**

Given the conditions at present, young couples who pay rent should consider buying ready-to-move-in apartments which have EMIs of up to 25% more than their monthly rent. However, it is important to ensure that the distance to their workplaces does not increase so much that it adds significantly to their monthly outflow.