A slowing realty market spells opportunities

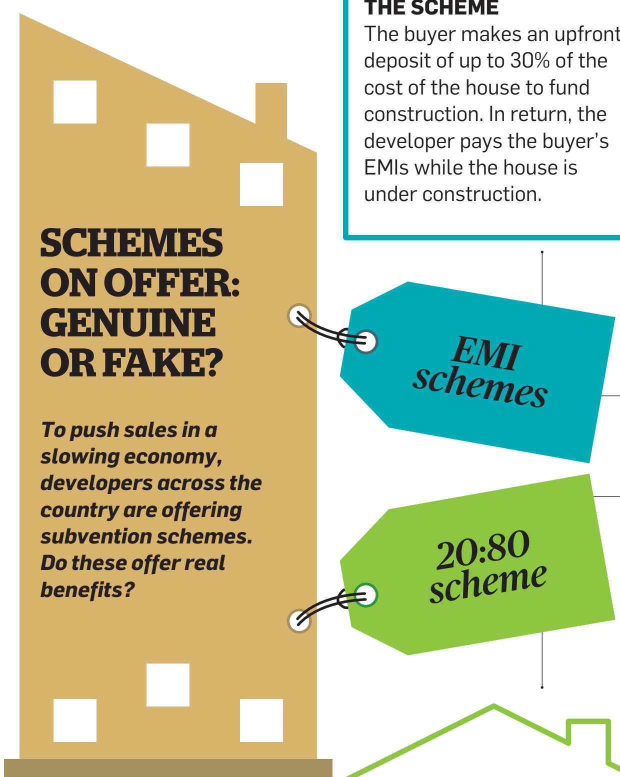
It may be time to go bargain hunting for end-users and investors as developers offer attractive rates, but focus on quality and exercise due diligence before buying one.

SANJAY KUMAR SINGH

A slowdown in the real estate sector can spell opportunity for the prepared. Delhi-based publishers, Umraopati Ray, 30, and his wife Priyanka Saxena, also 30, own an apartment at Paschim Vihar. As the slowdown in the National Capital Region (NCR) intensified, the young couple went hunting for good deals. Recently, their efforts were rewarded when they managed to buy a flat at Vasant Vihar at a price 15% lower than the peak rate witnessed in the area in the past.

Pan-India slowdown

Real estate markets across the country are currently witnessing a downturn. In Mumbai, it has lasted for about a year now. Down south, it began about six months ago. The Delhi/NCR market was the last to be impacted by the slowdown, but here, too, the signs have been apparent over the past three months.



EMI schemes

THE SCHEME
The buyer makes an upfront deposit of up to 30% of the cost of the house to fund construction. In return, the developer pays the buyer's EMIs while the house is under construction.

PROS & CONS
The buyer doesn't have to pay the EMI and rent simultaneously. However, he should have a large sum for making the upfront deposit.

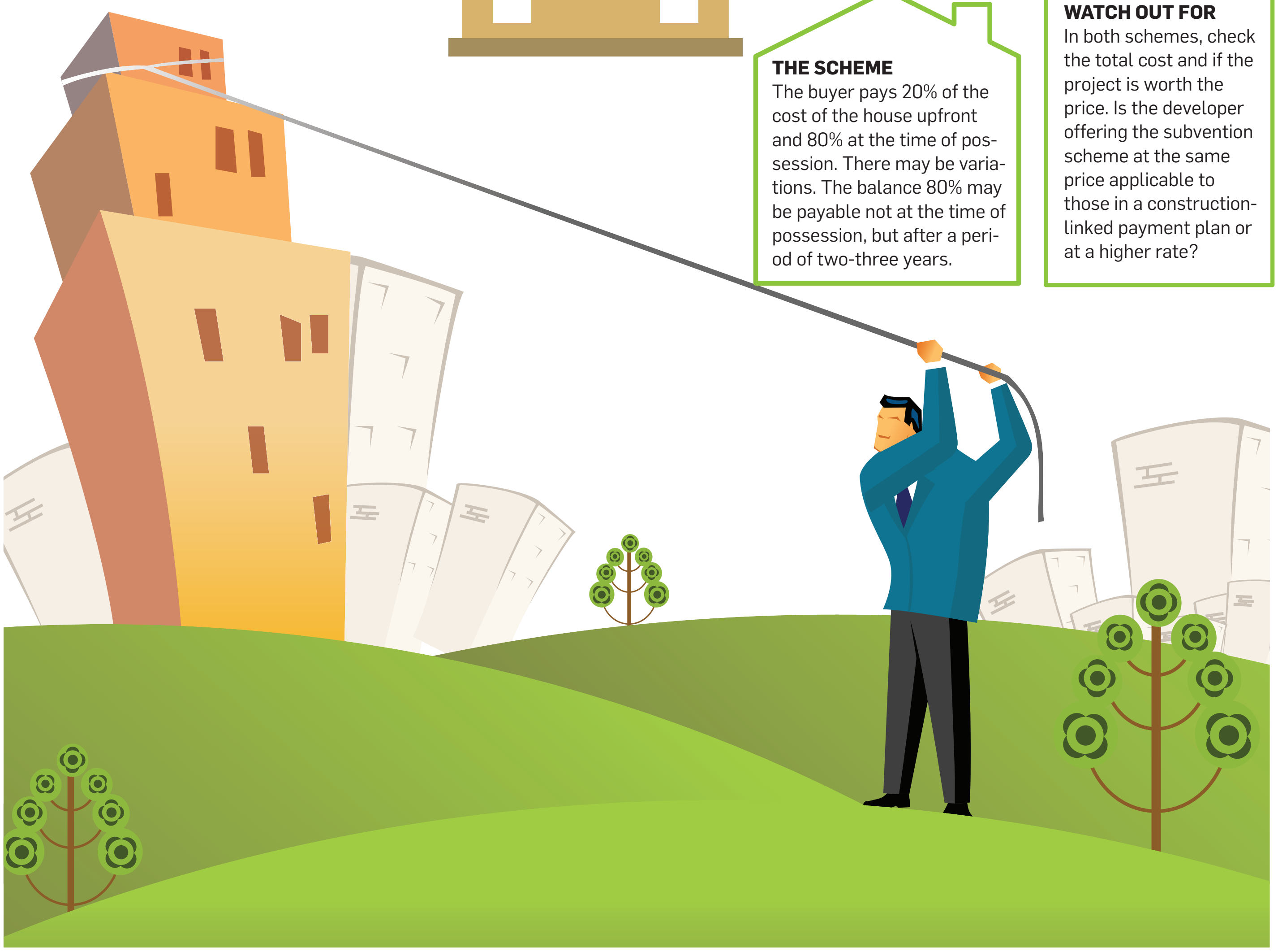
WATCH OUT FOR
The builder must pay EMIs till he gives possession, not till a specific date (project might get delayed).

20:80 scheme

THE SCHEME
The buyer pays 20% of the cost of the house upfront and 80% at the time of possession. There may be variations. The balance 80% may be payable not at the time of possession, but after a period of two-three years.

ADVANTAGE
If 80% is sourced from banks, the EMI for the loan starts at the time of possession.

WATCH OUT FOR
In both schemes, check the total cost and if the project is worth the price. Is the developer offering the subvention scheme at the same price applicable to those in a construction-linked payment plan or at a higher rate?



While developers have not slashed their prices overtly, the slowdown is visible in the drastic fall in the number of transactions. According to a Gurgaon-based broker, this figure has dwindled to 30% of last year's level. The speculators who had booked a large number of properties in the hope of exiting profitably in a rising market are now jettisoning surplus holdings, often at a discount. In the primary market (where you buy from a developer), the slowdown is evident in the large number of subvention schemes and discounts (ranging from 5-20%) being offered by cash-strapped developers. Another marker signalling a downturn is the widening gap between prices in the primary and the secondary markets (where you purchase from another buyer).

The downturn is most pronounced in the markets where speculation over the past couple of years had driven the prices high, though the infrastructure is not yet in place. The Dwarka Expressway area in the NCR, where the highway providing connectivity to the region has not seen much progress over the last year or so, is a prime example.

Prices are also correcting more steeply in projects where barely 20-30% payment has been made and possession is a couple of years away. Says Rajan Ahuja, executive director, Realty & Verticals, a Gurgaon-based real estate consultancy: "In such projects, buyers have begun to feel the pinch. If these get delayed amid the slowdown, there could be a lot of exits and prices could see a further correction."

What's causing the slowdown?

The fall in the real estate market is only mirroring the slowdown within the economy at large. According to Anshul Jain, chief executive officer, DTZ India, "The weak economy has affected the demand for residential units. Inflationary pressures and lack of increments have left the buyers with no surpluses."

India's real estate sector, much like other sectors, is subject to cyclical downturns. Says Sanjay Dutt, executive managing director, South Asia, Cushman & Wakefield: "A lot of projects have been launched, so inventory levels are running high. Prices have also gone up a lot. Meanwhile, the sentiment is not so bullish." A negative feedback loop has set in. With quick gains becoming hard to come by, new investors are staying away from the market.

Real estate consultants blame the current slowdown on the speculative excesses in the past. Says Ahuja: "In markets like Dwarka Expressway, speculative buying and selling had pushed the prices to unsustainably high levels. A period of price correction was bound to follow."

"The slowdown is likely to continue till a new government is in place after the general election next year as most people will defer their investment decisions till then."

Anshul Jain
CHIEF EXECUTIVE, DTZ INDIA

Umraopati Ray 30 years, & **Priyanka Saxena** 30 years

They bought a flat at Vasant Vihar, Delhi, at a price that was 15% lower than the peak rate in the area.

"When we heard about the slowdown, we thought this may be a good time to go hunting for attractive deals. We managed to buy at a considerable discount."

Opportunity for buyers

In the popular imagination, the word 'slowdown' carries negative connotations. However, it spells opportunity for buyers who had found the prices moving beyond their grasp when the markets were rising. Those who had deferred the decision to buy may now go in for the kill, as the young couple—Rai and Saxena—has done. As Dutt says, "This is a good time to buy, especially in projects and locations that would have been difficult to secure in good times." Vishal Dhawan, chief financial planner at Mumbai-based financial planning firm, Plan Ahead Wealth Advisors, says you are likely to get good deals in the secondary market, since the individuals who had invested in multiple apartments and are in desperate need of cash, will readily sell at a discount.

Jain of DTZ believes that the current slowdown will continue until a new government is in place after the general election in May 2014. Hence, buyers have time on their side. Sanjay Sharma, managing director, Qubrex, a Gurgaon-based real estate consultancy, advises patience. "This will gradually turn into a buyer's market. Make an offer and bide your time. Even if it takes three to four months to strike a deal, be patient," he says.

Schemes galore: To push sales, developers are coming up with all kinds of offers (*see Genuine or fake?*). Subvention schemes like 80:20 have become the market benchmark. In Noida Extension, buyback schemes have become popular—buy at ₹100 today and resell to the developer at ₹118-124 a year later.

While at first glance these schemes appear attractive, buyers must watch out for hidden costs. Says Ahuja: "Cut through the intricacies of the scheme and calculate the final cost to you." A popular trick is to price the apartment being sold via a subvention scheme higher than that via a construction-linked payment plan.

Compare the price that you are being charged with the rates prevailing in that area. In the current circumstances, avoid expensive projects (with rich specifications), especially if they are in remote locations.

Exercise due diligence: Instead of being waylaid by developers' offers, stay focused on quality. As in all real estate purchases, give primacy to location. Does the area offer proper infrastructure, including good connectivity? In areas where the infrastructure is yet to be developed, prices may remain depressed longer.

The quality of the developer, especially his financial strength and ability to deliver the project on time, should be a prime consideration. The developer should have title of the land on which he is developing the project and also all the necessary approvals.

Have a long investment horizon: Real estate cycles tend to be longer than those in equity. Hence, a downturn in this sector could possibly last a long time. According to Dhawan, if you invest now with a horizon of 7-15 years, you would be insulated from the slowdown.

Understand supply dynamics: Dutt of C&W warns that a lot of projects have been launched, but fewer are being delivered. If the slowdown deepens, many may not be delivered at all. Hence, it is incumbent that you understand the supply dynamics of the area that you are investing in.

Does your car need to be recalled? **Page 27**

Should you hold on?

If you have already invested in a couple of projects, don't let distress sales by a few investors scare you into bailing out. Dutt says that if your investment enjoys sound fundamentals, you should stay put. In a slowdown, investors seek refuge in quality, so such investments could appreciate even in this environment.

Moreover, the market will stabilise in due course. "If prices in the secondary market correct by 25-30%, end-users will find value in it and return," says Ahuja.

Should you exit?

The investors who have over-invested in realty—those who bought a number of apartments in the hope of making a quick buck—should trim their portfolios by selling their excess holdings and retaining only those for which they can afford the payments.

You may also sell if you are offered a good valuation, or if better investment opportunities, such as in foreign markets or in tier II and III towns, beckon.

Watch out for

Curb your risks: According to financial planners, real estate is a risky investment and should be clubbed with equity and commodities in the high-risk basket. Make sure that, cumulatively, you are not too heavily exposed to these three asset classes.

However, there are no rules of thumb regarding your exposure to real estate. If you are investing in it for both self-use and investment, you may have a higher exposure than if it is purely for investment. If it's for the latter, do not over-commit. A slowdown often coincides with that in the economy. So even as your realty investment becomes less valuable, you are also at a high risk of losing your job. Dhawan suggests that if both the partners work, the EMI on home loan should not exceed 40% of the net salary of one partner, so that you don't experience difficulty even if one partner loses his job.

Liquidity risk: People claim that if they can't pay EMIs, they will sell and exit. This argument, says Dhawan, doesn't take into account how difficult it becomes to exit in a slowdown. "If you are going to depend on this strategy, at least build an illiquidity discount into your calculations," he says. While a slowdown means the end of quick profits, it could also throw up opportunities. So keep scouting till you come by a good deal.

REAL ESTATE PRICES HAVE STOPPED MOVING UP IN MOST MARKETS

Except for Chennai, prices had stopped rising in all major metros by the end of Q12013.

City	Micro-market	Price per sq ft	Change (%) 3 months	Change (%) 1 year
Delhi-NCR	Noida	4,500-6,200	2	2
	Gurgaon	6,800-11,500	6	18
	South-east Delhi	25,000-30,000	0	10
	South-central Delhi	25,000-30,000	0	9
Mumbai	Navi Mumbai	5,000-12,000	0	6
	Thane	6,500-10,000	0	10
	Western suburbs	10,000-14,000	0	9
	Central suburbs	10,000-15,000	0	4
	South Mumbai	35,000-52,000	0	6
Bengaluru	West	2,800-3,800	NA	NA
	Far south	3,000-4,000	NA	NA
	North	3,500-5,500	0	13
	East	3,800-4,800	0	0
	Central	6,000-8,000	0	0
Chennai	Mogappair	5,000-7,500	9	9
	Velachery	6,000-8,000	27	40
	Adyar	10,000-14,000	9	17
	Mylapore	12,000-17,000	16	26

These are capital values for the first quarter of 2013 for mid-segment residential properties.
**Average rate in ₹ per sq ft. Source: Cushman & Wakefield*

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