

# Is the tide turning?



The real estate market is slowly showing signs of a revival, which in turn, is getting reflected in the rising confidence of the home-buyers, thereby indicating a positive trend, says our expert

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Home-buyers often face the question – is this the right time to buy? Is the worst over? Has the tide turned? The news flow is confusing. The economy seems to be doing better - the stock market is up and has weathered many a recent storms. Developers are always upbeat. The government on its part, has done the right things - infrastructure improvements, urban transport, smart city initiatives, other policy initiatives, regulation such as RERA making it easier for FDI to come in, among others to boost the sector. However, some parts of the media are saying that real estate is not doing well. Prices are not rising. Sales have been slow. Sentiments are weak. Project delivery has been delayed.

Is India at a point of an inflection? Let us look at some data points. Overall, residential sales for the top six cities are up seven per cent in 2016 compared to 2015. The NCR and MMR are the two largest residential markets, followed by Bengaluru. The NCR has been the worst performing market in the last couple of years, but things are changing it appears. On a year-on-year basis, new launch supply in Q1 2016 in the NCR declined by a significant 60 per cent. Absorption though, increased by 10 per cent compared to the corresponding time period in 2015. In the aggregate, this meant that the inventory overhang in the NCR is now at its lowest in last one and a half years. Prices fell for the first time in years, a four-five per cent decline. This indicates a possible revival, especially because the absolute level of inventory includes a

high percentage of large luxury homes, in contrast to the smaller/value-for-money homes being delivered in 2016 and 2017.

The MMR is expected to deliver almost two lakh homes this year, which is 2.6 times the average delivery in the last four years since 2012. Another 1.5 lakh homes are expected to be delivered in the MMR next year. Sales in the MMR in the first half of 2016 indicate a 20 per cent plus growth year-on-year, reflecting the revival of confidence.

Customers are buying where they have confidence in project completion. This is reflecting in the action of developers, who are racing to raise last mile financing to deliver projects on time. At the same time, new launches in the MMR are also down over 40 per cent year-on-year. Unsold inventory in the MMR is down by 20 per cent in the last two years. Launches have exceeded sales for the last one and half years, but the good news is that in 2016, the difference has been 26 per cent higher (absorption versus new launches) compared to eight per cent, a corresponding year ago.

The other cities have also shown a declining trend in the overall inventory. This is positive news and the curve is turning. The weighted average launch price in the MMR has increased by one-two per cent year-on-year. After rising for three years in a row, Bengaluru's average launch price rise has abated, with a moderation of five per cent over 2015.

Analysing the segment trends is also encouraging. New launches of affordable units made up 20-25 per cent of the NCR's new launches in the last two and a half years and 15 per

cent of absorption, while the corresponding figures were 25-30 per cent and 30 per cent respectively for the MMR.

Is there sufficient evidence to indicate a trend? It appears so. Of course, one can't always time the real estate market. The green shoots are visible - sales in the two largest urban markets in India, the NCR (erstwhile the worst performing micro-market) and the MMR, are up in 2016 compared to 2015.

Absorption has exceeded new launches for six quarters in a row in the top six cities, lowering the overall inventory by seven per cent year-on-year. The overall economic environment is positive. Inflation appears under control. Deficits are down. Employment is picking up gradually. The monsoon looks to be good. The RERA bodes well. India is being looked at favourably by international investors as well. Equally, one can't paint everything with one brush.

Real estate is a very local market. There are parts of the MMR that have done well, for example prices in Thane have buckled the trend. Affordable housing by and large, has done well; it is small, yet growing. Mid-segment residential performance has varied. Generally, south and west India have done well. Yet there are pockets of outperformance. The goal is to find a neighbourhood that has a growing employment base, visible transportation access, growing infrastructure, especially social infrastructure (education, healthcare, shopping, entertainment, etc), and acceptable commute distance.

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