‘Residential Sector to See Softening of Prices’

ET Q&A

The government's clampdown on black money will bring transparency in the real estate sector and therefore more foreign direct investments. Given the likely rise in investment appetite of foreign institutions owing to this move, exit valuations are expected to improve significantly and commercial real estate should cross the last high points of 2006-07, says **Rubi Arya**, vice chairman, Milestone Capital Advisors. In the residential sector, the market will surely see softening of prices, Arya told **Kailash Babar** in an exclusive interaction. Edited excerpts:

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How do you expect the investment scenario in Indian realty to pan out after demonetisation?

In the commercial space, we can expect minimal impact. Most office/industrial leasing transactions do not involve cash. We can expect gross returns to increase due to interest rate compression and LRD arbitrage (LRD rates are down to 9-9.2% while entry yields are at 9.5-10%). Exit valuations would thus improve significantly and commercial real estate should cross the last high points in 2006-07. Transparency in the sector will bring in further FDI into the sector, also leading to a stronger platform for REITs etc.

In the residential sector, the market will surely see softening of prices. Home buyers will want to wait out this period as they will expect home loan rates to fall before investing as well as wait for the market to demonstrate realistic prices across mid-segment as well as affordable projects. With the upcoming RERA, there will be further stabilisation of pricing hence, we can expect the next 3-6 months to witness substantial correction. Land deals are likely to suffer on agricultural or un-approved parcels. At land level, most will hold on, leading to a supply crunch.

What impact will this have on prices across property segments?

In the short term, this move will affect transactions both primary and secondary transactions in Tier II & III markets and we should expect a ‘wait & watch’ period for 3-6 months before buyers enter the market again. With a view to steady the supply, developers facing cash crunch will increasingly look for institutional capital. Going forward, banks might begin funding land transactions, thus bring stability in that area as well. Sales driven by the salaried class will continue to enjoy the current momentum, without much effect on prices. In the long term, with reduced interest rates, we can expect an increase in demand for residential investments and that will again lead to gradual increase in property prices.

In this scenario where can one invest in order to safeguard her investment and yet make money?

Now, with reduced deposit rates, investments into bank fixed deposits and bonds will yield very low returns (5-6% pa). Equity markets will remain highly volatile for some time, hence not advisable. On the other hand, with real estate prices looking to temporarily drop, slowly stabilise and then grow within the medium term, it clearly shows the attractiveness of this asset class. More so, in the mid-segment residential projects, which are targeted towards the end user, we may actually see investors in addition to end-users across all good markets. Institution-backed projects are clear of any issues due to strict due-diligence measures as well as their compulsion to deliver on time. Mostly salaried and loan-taking buyers will find investing into projects with such institutional funding or into alternate investment channels, safer and rewarding. Also, investors looking to earn a passive income on their investments should consider commercial investments through fund houses for income through rentals and capital appreciation on exit.