Recovery on horizon

The legislative measures to bring in some discipline in the sector will improve the scenario as demand for home remains, thanks to a young population

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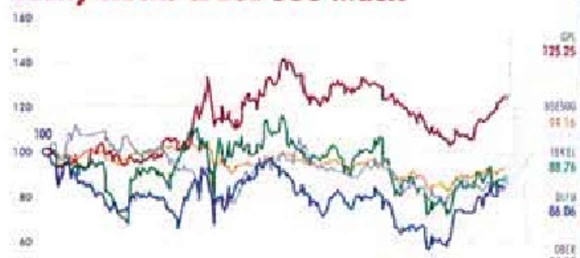
Realty stocks & BSE 500 Index



THE REAL estate sector remains in a dormant state. Property developers sit on a huge pile of unsold inventory of residential units. With the economy still lacking the much-needed positive signals, prospective homebuyers have turned into fence-sitters.

While high interest rates continue to be an area of concern, the attitude of certain developers in the recent past – of launching too many projects and spreading the capital thin – not only led to delays in completing some projects but also landed many of them in a debt trap.

Private equity funds have become selective on where and with whom to invest. Even here, equity has come down, with offers tilting towards debt. Funds are focusing on approvals, the reputation of builders and their capability to pay back in time.

Not everything is gloomy. With a burgeoning population, especially in the young age group, the demand for housing exists. The slowdown witnessed over the past couple of years has brought in a sense of balance in terms of price, as well as on the need to stay focused.

The Union government, on its part, has offered a few sops for the much-talked about affordable housing in the latest budget. The Parliament has passed the real estate regulatory authority (RERA) bill and it has become a law. Not only there will be a central regulator, even the states will have one. Since the present focus is on the assembly polls across five states, the attention of the governments – to appoint the regulators – is expected to come back to the subject by June this year. With RERA laying stipulated conditions, it is expected to bring in discipline to the operations of this industry, which it surely lacked so far.

Ajay Jain, executive director, investment banking & head of real estate group, at Centrum Capital, likes to look at the real estate industry from the pre and post budget as well as pre and post RERA period. "Earlier, most developers used to have multiple projects and they were not able to complete all in time, leading to two-four years' delays. The larger the project, the longer the delay. This affected customer interest in a big way. While costs went up, returns came down," says Jain.

After RERA, Jain feels, the focus will be on on-time delivery and repayment to lenders. With the new guidelines, wherein 75 per cent of the money received for a project should be kept in a separate account and utilised only for that project, a sense of discipline will come in.

In case of delays by customers, in the past developers were charging customers around 18 per cent as penal interest and if developers delayed the project, they either paid zero interest or at the most 6-8 per cent to customers. Now, it has become 'on par' interest rate for both sides. Under RERA, every developer has to do a project registration and under which he has to reveal all details of the project, including details of vendors.

"Once discipline comes in their approach to business, the sales will improve for good developers. As the industry sees more such positive developments, more and more developers will opt for a disciplined approach. Unlike earlier, where anyone with even a small plot of land became developer and leading to mushrooming of developers, RERA will restrict and help in cleaning up the system," feels Jain.

"Besides the residential segment, the growth of e-commerce and emergence of new generation entrepreneurs is leading to an increase in demand for commercial space and warehousing. Leading developers have started focusing on these segments," he added.

According to a recent report by HDFC Securities, the residential real estate is showing signs of stabilisation with improvement in volumes during the third quarter of FY16. While new launches have shrunk, the uptick in volume absorption indicates higher sales from the unsold inventory. This is also reflected in months of inventory trending down. Prices remained muted with 10-15 per cent discount offers during final negotiations. FY17E is expected to be a better year for the real estate sector.

Also, for the first time, commercial real estate absorption outstripped supply and vacancy rate dropped to 16.7 per cent. Gurgaon, Bangalore and Mumbai saw good leasing activity in Q3FY16E. Under-construction projects have been decreasing and this will result in upward rental trajectory, the report added.

HDFC Securities expects Brigade and Kolte Patil to deliver strong numbers, as new projects hit revenue recognition. On a quarter on quarter basis, Sobha may gain revenue traction with higher contribution from Sobha Dream Acres project in Bangalore. Oberoi, DLF, Prestige Estates will deliver muted results with limited new projects hitting revenues.

A JM Financial report has outlined a new trend that could spell relief for homebuyers sorely called by projects stuck for want of funds – small developers are appealing to industry biggies to take over their projects. Recent such tieups include Unitech approaching Godrej Properties to offload a project in Gurgaon. The latter has also signed an agreement with NCR-based builder Lotus Greens to build a housing project in Noida. Even cities like Mumbai, Bangalore and Pune are seeing such tieups. Pune-based ABIL Group, along with service and solutions provider group, Radius, is aligning all projects of DB Realty. L&T has taken over a project of Omkar Realtors in Mumbai. Essar Developers' project 'Equinox' is being handled by SNN Raj Serenity group in Bangalore.

According to the JM report, while consolidation in the sector is expected, its pace will be slower than expected. High level of due diligence, especially in the light of Regulatory Act implementation, construction quality and marketing terms could be deterrents for quick execution of such deals. At the same time, transaction of projects with requisite approvals and clean land title will benefit organised players with healthy balance sheet like Godrej Properties and Oberoi Realty.

With demand for office space on the uptick, Centrum Capital's Jain says, "a clutch of developers such as DLF and Embassy-Blackstone are slowly getting ready for a possible real estate investment trust (Reit) listing. Reit's will transform the office sector, improve transparency and attract more investments. Already office rents in most of the cities have increased steadily since the last two years. Going forward, this trend is expected to continue in the coming six-month period, with Pune and Bangalore projected to grow at the fastest pace."

According to Jain, the government is taking various initiatives to boost this segment in various forms like the regulatory bill and tax sops for homebuyers, besides certain tax exemptions and relief for developers too, who are focused on affordable housing segment. ■

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