

Banks Must Pass On Rate Cuts to Revive Growth of Real Estate



New Delhi, January 05, 2017: The Modi government's demonetization exercise will hit the real estate sector hard- in short lived – as it has consistently seen a very large component of black money and cash transactions. However this is also likely to make a property economical and will particularly rise affordable housings, experts says.

"After the recent demonetization of surpassing denomination notes, the affordable housing segment and the salaried class are going to be two obvious beneficiaries. Land prices are expected to see a correction in the values, more so in the Tier II, III cities and the fridge areas of metros. This will demolish unit prices and help make houses more affordable in India."

Anuj Puri, chairman and country head, JLL India, said. Affordable housing, in fact, is mostly available in the fridge areas of metros as land prices are cheaper there compared to prices within the city limits. With land prices coming down, these projects could see higher class. Buyers in this segment, on the other hand, stand to benefit from not only lower unit prices in the coming months but also likely to fall in home loan interest rates.

The prime minister recently announced at a rally that his government's demonetization drive will push banks to cut lending rates significantly, prompt a revival in economic activity across the country.

Media reports have quoted the Reserve Bank of India saying that banks have collected deposits of nearly Rs 4.5 lakh crore between November 10 and 18, while they disbursed only about Rs 1 lakh crore. As a result of this surplus liquidity, many banks have already brought down deposit rates by 15 to 25 basis points in a bid to increase lending. Some economics analysts further expect devaluation of 50-75 bp in lending rates in the next four to five month's time.

"This can certainly bring down home loan interest rates, provided by the banks pass down the benefits to home buyers. If previous rates cut by the RBI are passed on too, interest rates on home loans could come down by upto 2%. This could spur demand among the service class for housing across the country" Puri said.

Atul Bansal, president (finance and accounts) M3M group, also says that low interest rates will give real estate a massive boost by raising positive sentiment and demand. "PM Modi demonetization move is bound to ensure a boost in the residential segment, especially affordable housing, as the interest rates are expected to fall. Banking systems are bound to see a windfall of funds as a positive impact of demonetization, which will increase their lending capacity, in turn, drive down the the interest rates for both deposits as well as loans. Lower rate interest will bring down the EMI's on home loans, making real estate more affordable reducing the overall cost of investment, Bansal says."

Given Modi's government's focus on affordable housing the segment has already attracted bug players like Mahindra Lifespaces , Tata housing. Shapoorji Pallonji Group. Assetz property Group, and Puravankara Projects , among others. Another player, Emgee Group, is planning an investment of Rs 1,600 crore in th affordable housing segment over the next five years.

A JLL India report says that private equity players are willing to collaborate with developers operating in this space and fund such projects. Nisus Finance Services, Bank Eagle Capital, Avenue Ventures Partners Real Estate, Carlyle, Essel Finance Corp are some of the PE firms helping developers with funding for their affordable housing projects.

All these progress, along with the removal of black money, to a large extent, are likely to make housing cheaper in the near future . "A fall in interest rates would further add on to the growth of affordable housing, which will be visible more in the longer term," Ssumit Berry, Managing Director of BDI Group said.