

CII REAL ESTATE CONCLAVE

Affordable homes will remain a sweet spo

BY VIVEK LAW
BLOOMBERG UTV

A panel comprising Anuj Puri, chairman and country head, Jones Lang LaSalle India; Sandeep Runwal, director, Runwal Group; Laurent Bruyere, managing director, Otis Elevator Company (India); Lalit Kumar Jain, chairman, Kumar Urban Development; Ashish S. Raheja, managing director, Raheja Universal; Brotin Banerjee, managing director and chief executive, TATA Housing Development Co. Ltd; Boman Irani, chairman and managing director, Keystone Realtors; and Vijay Mirchandani, director, Mirchandani Group, discusses the prospects of the real estate sector. Edited excerpts:



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Anuj Puri
Jones Lang LaSalle India



We wouldn't mind dropping prices if we had the backing from the banks and the govt to open up.

Ashish S. Raheja
Raheja Universal



In Adarsh there is not one developer involved...but the whole industry got tainted.

Boman Irani
Keystone Realtors



Whosoever has come to the public market post 2009, their valuation will come back.

Lalit Kumar Jain
Kumar Urban Development

per the studies of JLL Lang LaSalle) or McKins are talking about over 8 lion people going to live dian cities by 2050. S kind of demand is hu mand. I don't understa kind of paradox we are now whether it is bo bust. When their is ins demand where is the qt of bust. It means possi are not focusing on wha ing demanded by the cu or we don't understan we don't understand h ets, we don't understan he exactly wants. In Pa erybody wants to build v pensive housing. Dubai problem running after a ular category. So if we t prospect answers, when lect an area, do a proper create a size which is able that matches the spot of that area I don' builders will face that pr

Nothing seems to be going right for the real estate sector. You are squeezed for funds. The government is not doing much, while I heard a speaker say the capital market is dead as far as real estate is concerned. So what are you all doing?

Puri: If I can divide into three sectors and maybe geographies. So three sectors quickly—office and retail doing very well. Great amount of demand, office we moved from 20 million sq. ft of demand in 2009, 231 in 2010 and 241 in 2011. 2011 will actually be the best year that India would have witnessed in terms of the office absorption. Similarly, on retail, from 4 million sq. ft in 2010, the absorption has moved to 11 million sq. ft, so clearly...the absorption in those two sectors is doing very well. But mind you, the prices had come down during the global financial crisis. The prices had corrected in those between 25-30% and they largely continue to remain there, barring a few micro-markets like Gurgaon or Bandra Kurla... If you look at the residential—leave Delhi and Mumbai, the other cities are doing very well, very strong, great demand, great pricing in those cities and the cycle is continuing to go on. It's really Delhi and Mumbai—the two cities where we are absolute-ly... in a logjam position today, whether it is the approvals, whether it is private equity, whether it is the financial institutions, whether it is the consumer. I think the cycle is just not moving from that

It's great pricing for the developer but terrible pricing for the consumer.

Puri: My thought was that the prices would start to come down but probably the supply which we had thought would actually come out into the market is unlikely to happen because the approvals, the way they stand today, is unlikely that you are going to get it over the next 6-12 months and clearly that is going to cause grief because there is going to be inadequate supply that is going to come out into the market as a result of which the prices will continue to remain where they are.

Raheja: A bust will be followed by boom if everything is great. A boom is you make money, you reserve yourself for a bust. In a way Bombay and

velopers just kept not only increasing rates, they changed their practices, their areas. The same carpet had become larger effective rates of that went up more than they should and most of the developers were not happy with that. We were the people making money from it, what happened is the immediate reaction of some landlords. Landlords adjusted their land prices to potentially higher FAR (floor area ratio) to potentially higher loading to potentially higher prices and some developers bought it. So this became a vicious cycle and now that has been arrested. We all are suffering from hangover may be *Hangover Part 3*. We are facing this constant attrition. There is no supply because the landlords are not selling and those who cannot get their FAR approval they wanted and they are saying that the media is hammering us.

No the media is not hammering you. RBI (Reserve Bank of India) and the government are hammering you by increasing rates. Are you finding it difficult to raise capital today?

Raheja: The only reliable source of capital is internal accruals pre-sales and they are happening at the lower price. That's happening from a sentiment than from supply, the moment the lower prices in the existing project, the moment you launch a new project at 20% discount or 10% to appear they have massive offtake, which means the buyers are there, they are okay with the prices. The point is they are expecting to get a better deal.

Which you are able to hold on to prices?

Raheja: They probably had

no choice, the cost of holding is more than the cost of lowering...

But you are still holding?
Raheja: No. On new projects, people are launching it at more than rational price level. More than pricing, they are rationalising the transparency. Price is not just the rate per sq. ft. It's also the kind of unit, the configuration and also on your earlier comment people did in 2009 the prices did correct. We opened it a project at formally at ₹10,000, at ₹5,000 in Mumbai and bought 400 units in one month. Prices went up steadily and people get buying. But the people who came early got the benefit and now we are back to where we were in 2008. Yes I agree in some locations prices are factors, but I also believe we wouldn't mind dropping prices if we had the backing from the banks and the government to open up. The regulatory framework is crunching supply.

Banerjee: I think for residential you are seeing for darkness really going into the tunnel while retail and commercial I think Anuj rightly said that it went through a very bad time in 2008 and 2009 and you are seeing light at the end of the tunnel. I think residential, premium housing is probably dead at this moment in time and it's largely dead because of the fact of approvals. The negative sentiment of RBI raising prices and developers having raised prices very abruptly, I think the real culprit in this whole thing is the government and I am not saying because they are not in the room, hence, speak out but there are no approvals coming. The press rightly mentioned that

this developer or the other developer they can choose any developer and you are on the headlines everyday nearly saying that the approvals are not there and some scam is going on. That was all effected because this is the biggest ticket investment you are doing in your life as a consumer in residential and you would definitely not want to put in money where the approvals are not there. So I feel that the approvals have really spoiled the party and Mumbai being one of the largest residential markets in commercial, real estate markets Mumbai is terribly affected because this state particularly has taken a very hard look at approvals and from the excesses of the past where any person who would got approvals for some money being exchanged. Today even if you follow all the norms, your project is not going to approve. So I think that we are further compounding the problem.

What about out of Mumbai?

Banerjee: I will give you from my own experience because projects which are in the affordable category in the value category we have seen outstanding demand. There is huge demand which has been untapped for so long because real estate prices have been very high. So even before you say those projects are sold.

Are they are still high?

Banerjee: They are still high. When Tata Housing has smart value homes which does houses below ₹10 lakh and between ₹10 lakh and ₹30 lakh, and this category has not really been focused on by developers. So for us we have seen a lot of traction in sales velocity and other consumer interest in the af-

fordable category but if I speak from the premium categories sales have been sluggish

Affordable housing was the buzz word two-three years back. Has that delivered according to you?

Mirchandani: I think affordable housing is not in that kind of trouble. Of course, I like to first clarify what is affordable because affordable is very relative term. It changes from city to city, state to state. Now I would say that since you operate in all tiers, tier 1, tier 2, tier 3 markets at Indore price bracket of ₹20-30 lakh is affordable. When you come to Pune it becomes ₹30-40 lakh, come to Bombay it becomes ₹50-70 lakh. So that's the change with city. In the same segment whichever be the city I also disagree with this that 80% of India is made up of Delhi and Bombay.

I think most lower markets have emerged if you go back the CRISIL report has come out yesterday. Ten cities we are talking about next—Bhopal and Indore do figure, there is Bhubaneswar. There are other cities which are going to see in next decade a lot of real estate action and the volumes are still growing there. Unlike Mumbai and Delhi the volumes there are still growing, the problem, of course, we are facing is the input costs are going up, the construction costs are going up, the labour problems have come in and construction generally is getting difficult. But for large projects which can spread this and if we can have technology support as what we are looking now the affordable segment will still remain a very sweet spot. It will continue to do well. We are talking about 26 million house shortage as

Is capital the biggest i today?

Runwal: For most of t velopers you can spea don't think capital is re issue. For most of the r developers who have r record who can deliver, is genuinely not an Bankers will lend to yo vate equity will come ar you money. The biggest lem we face is there is supply. The government does not allow us to j build, deliver quantities.

Are you saying governm approval's contribution to I is such that it is unlik prices are going to come

Irani: ...I have been sa every forum a develop very misunderstood tern other day I was readi newspaper a builder neighbour for land. Nov you read further it is a going to build hut out th is just talking of buildi next door and that's the er who is being talking but the headline reads I kills... Two, is taking o my what president (Confederation of Real Developers' Association dia) has just said: in , there is not one develo volved, in any side of th trum. Not from the app not from the building, n the buying, not from th ety's name—nowhere. I industry got tainted...

Is there demand?

Bruyere: No problem demand. In India the e demand is going befor Germany, Spain. We growth of 30% a year, years ago, we were muc behind. We are looking ; lifts which we can find where. Market for e companies will go ; higher which is not the other countries. It is like 15 years ago. This marke ing to explode in tier 1 a 2 cities when you talk cities like Sonnegam, Ah bad. There are not w ing big buildings but bui with 5-6 stories. In Mum have big buildings which special elevators that the time spend by the on the elevator. Executic issue, we need skille power. So we are deve



I think residential



Elevator demand in



We are not focusing



The government