

Waiting for a growth trigger

The real estate sector is currently passing through one of its most trying phases. While property sales across cities have slowed down considerably, buyers are cautious in the wake of unfavourable economic condition. Even as developers are struggling with the liquidity crisis due to weakening cash flows, the increasing cost of construction has hit hard on their bottomline. Further, most of the funding options have dried up, making it really tough for the builders faced with high level of debts. Inventory of unsold properties has gone much above the comfort level.

Mumbai, where residential sales volume has fallen by around 40 per cent, is now saddled with an inventory of as high as 48 months, whereas National Capital Region (NCR) is struggling with an unsold stock of over 28 months. Both these prime markets are hard pressed to deal with the oversupply situation.

“Almost all economic indicators are in the negative zone and that has taken its toll on the real estate market as well,” says Anshuman Magazine, chairman & managing director, CBRE South Asia. “The sector is at present confronted with multiple challenges. While buyers prefer to wait and watch, developers are trying hard to reduce their inventories in a rough market condition.”

“Like any other industry, real estate is also an integral part of our economy and any downturn on that front will have its direct impact on



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The property market is at a crossroads, with economic uncertainties looming large

the real estate sector,” argues J.C. Sharma, vice-chairman & managing director, Sobha Developers. “Macroeconomic headwinds have affected both supply and demand side in a major way. Overall outlook in the short term is not so encouraging, even if the industry is trying to cope up with the challenges.”

“The condition is definitely complex,” explains Sanjay Dutt, executive managing director, south Asia, Cushman & Wakefield. “Economic uncertainties have forced the buyers

to go slow. For developers shrinking cash flows is a matter of big concern. Limited funding avenues and hardening of interest rates have resulted into higher cost of funds for developers. The worst part is that this stressful period is not likely to be over in a hurry.” However the market is still not seeing large price cuts by developers – yet.

The slowing economy has adversely impacted demand and this has resulted in a much higher level of inventories across all markets. According to international property consultant Knight Frank, in Mumbai, nearly 290,000 residential units are under construction, while unsold inventory levels are close to 130,000 units that include ready as well as under-construction properties. This has happened despite the fact that new launches in the city have plummeted almost 40 per cent in the last two years. The absorption level in the commercial capital during January-September

2013 has dropped to 26 per cent, as against the corresponding period last year and more than 43 per cent from the peak level of 2010.

Though the number of under-construction units in NCR is twice that in Mumbai, the unsold inventory level in case of former is at 26 per cent. In Bangalore, the level at present is about 35 per cent. In the given condition, the stress is so much that Mumbai requires nearly nine quarters to clear its unsold inventory, while Bangalore and NCR need