REALTY CORRECTION –MYTHS AND TRUTH

By

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“Real estate stocks have fallen by 90%. Real estate prices will also crash.” –Public perception.

“We are launching a project in Hyderabad at 30% discount to market prices.” – Rajiv Singh, Vice Chairman, DLF.

“Real estate prices to drop by 20% in March.” –Economic times, dated 3 rd Feb.

No doubt the real estate market outlook today looks gloomy. Buyers have practically disappeared from the market and that fact manifests itself in the Q3 numbers of realty companies. In such circumstances what should the sellers and buyers do? This piece is an attempt to answer that question to the best of my ability.

In my view, markets will always go by the supply, demand dynamics. This is the only truth. Hence a correct assessment of the supply-demand situation is imperative for any impartial projections. But there are several facets to this equation. For example

- Compare a premium gated layout in Devanahalli with one in say, South Bangalore. While both of them are in Bangalore, the outlook varies dramatically because of one important factor. Occupancy - and the number of people living in each layout.
- Take an apartment complex in Whitefield with one in Koramangala. I am sure the outlook varies here too.
- Compare two layouts which are unoccupied (bought for investment during the boom times) one in Devanahalli and one in Jigani. There will be a difference here too.

Hence I tried to put the Bangalore realty picture in a table format taking some of the factors into account. It goes like this.

But before we proceed, I need to clarify the backdrop against which this assessment is

being made.

- Almost all the top builders in Bangalore are now concentrating on only ongoing projects putting all new ventures on the backburner. Hence the future supply in the next 1 year is from only the ongoing ventures and not new ones.
- Interest rates are now firmly in the downward trajectory and are likely to remain so throughout 2009.
- However banks are still vary of lending and have considerably increased the upfront payments. Hence loan availability is down to 60% of the property cost VS 80-85% earlier.
- "Bad times" column in the table will apply only if we see 10-15% cut in the salaries and workforce from tier-1 employers and 20-25% from tier-2 and 3 employers. If either job cuts or pay cuts are not as severe, the correction may not manifest itself as it will then be compensated by the interest rate cut as well as the already existing correction in prices.

FLATS and APARTMENTS

	Specific project occupancy	**Locality occupancy**	**Future additional supply in locality**	**Preference for residences**	**Future prospects for the locality**	**Correction in last 6 months**	**Further Correction expected if bad times last a year**
Central areas	HIGH	HIGH	LOW	MEDIUM	MEDIUM	10-15%	20% for budget & 30% for premium properties
Kormangala Indiranagar	HIGH	HIGH	LOW	HIGH	MEDIUM	5-10%	20-25% due to existing high prices
JAYANAGAR/JP NAGAR /BANASHANKARI/ B'GUDI	HIGH	HIGH	VERY LOW	HIGH	LOW/MEDIUM. No work places nearby.	5%	10-15%
BANNERGHATTA RD	HIGH BEFORE MEENAKSHI/ LOW AFTER	HIGH BEFORE MEENAKSHI/ LOW AFTER	HIGH	MEDIUM	LOW-MEDIUM	10-15%	15% BEFORE MEENAKSHI/ 25% AFTER
WHITEFIELD	LOW	LOW	HIGH	LOW	LOW	15-20%	CAN BE QUITE HIGH
MARATHAHALLI ORR	MEDIUM	MEDIUM	MEDIUM	LOW-MEDIUM	LOW-MEDIUM	10-15%	HIGH FOR LOW END PROJECTS
SARJAPUR RD	MEDIUM	MEDIUM	MEDIUM	LOW-MEDIUM	LOW	15-20%	HIGH
RMV-HEBBAL-JAKKUR	HIGH	HIGH	HIGH	MEDIUM	HIGH	5%	LOW
YELAHANKA	LOW	LOW	VERY HIGH	LOW	MEDIUM	15-20%	10-15%
BANGALORE WEST	HIGH	HIGH	MEDIUM	LOW-MEDIUM	LOW	15%	15%
TUMKUR RD	LOW	LOW	HIGH	LOW	LOW	15-20%	20-25%

VILLAS

- Occupancy in the top 3-4 villa complexes of Whitefield has been very high with great rental returns. But as rents are expected to soften significantly, resale prices are expected to fall by 20-25% in the next one year if the economy does not recover. After all, where can you find tenants willing to pay Rs 2 lacs per month as rent, in these troubled times?
- Occupancy in second rate Whitefield villa complexes has always been medium-low. The future here may be bad.
- Price correction in Devanahalli villas may be high. Vacancies will be very high.
- Jakkur and Sarjapur road will be a mixed bag.

GATED PLOTS

- South Bangalore: Not many good gated layouts either in existence or on offer. Will tide over the bad times quite effortlessly.
- North Bangalore/Devanahalli: Men will be separated from the boys. The good top 2-3 will survive this year with 20-25% price cuts. Others will have to pray hard. (We can do that. India is a very religious nation)
- Whitefield/Sarjapur road/Marathahalli: Occupancies in these layouts has picked in the last 2-3 years. Since future supply is very limited, these areas will scrape through with minor bruises.
- 30-50kms from Bangalore in all directions: The lights have gone out. 2009 will be a year of power cuts.

INDEPENDENT HOUSES (all over Bangalore)

- The tide started turning against them quite some time back. Read http://www.crorepatihomes.net/articles/death.htm
- However boom times of the last 3-4 years masked thier inherent weakness. With the market drying up there will be a severe correction whether in koramangala or Kamakshipalya.
- Anyway, they don’t come cheap. A good locality is still quoting Rs 6000/- per sft. Which means, that you shell out 70 lacs for a 1200 sft plot and then spend money on construction.
- In fact I dread to think as to what will happen to all these roadside independent houses in another 10 years time, exposed as they are to traffic, chaos, insecurity and rampant commercialisation.