

‘The END’ for ‘BAD TIMES’ in Real Estate .

(Not necessarily the return of good times)

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Green shoots or dense foliage ? Asks Ramesh Damani, on CNBC. He is talking of the stock market and of course indirectly about the economy.

That fortunes of the stock market and the real estate sector are intertwined to that of the economy is beyond debate. But while stocks react 6 months in advance to predictions on economy, real estate reacts with a lag.

Real estate sector in India was in fine fettle almost till the Lehmann episode happened in Oct '08. That is a good 10 months after the stock market crashed in Jan'08. You can take these 10 months as a period of translation of issues from the financial economy to the real economy. The 6 months period from Oct to March 09 saw buyers almost disappear from the scene. The consensus was that India was bound to stare at a period of very low growth, huge job losses and lower wages. In that context, it was argued, that real estate prices are bound to correct, and hence it was better to wait out rather than close deals.

However many things changed in the meanwhile and many expectations did not materialise. Let us look at that in detail.

| FACTORS | OCT' 08 | JULY' 09 | IMPLICATIONS |
|------------------------------|--|---|--|
| Liquidity with Banks | Severe liquidity crunch | Banks flush with money | Access to funds helps builders retain prices |
| Interest rates for consumers | At multi year high | At least 200-300 basis points lower | Less burden for the consumers |
| Builder finances | Banks were not lending | Banks lending now | Access to funds helps builders retain prices |
| | Stock prices at all time lows | Considerable recovery in stock prices | Options such as PE deals open |
| | Institutional investors were shying away | Many builders successfully placed QIPs recently | Access to funds helps builders retain prices |
| | Sales to buyers at all time lows | Sales picked up considerably | Access to funds helps builders retain prices |

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|------------------------|--|---|--|
| Predictions on Economy | India bound to suffer severely | Predictions more optimistic now | Sentiment has improved |
| Job losses | Expectations of severe job losses across all sectors | Significant job losses in the export sectors | Lost jobs were in low end and hence not of consumers of organised realty in cities |
| | | As per NASSCOM not more than 2% job losses in IT/ITES | Sentiment improved |
| | | Other sectors managed with minimum damage | Sentiment improved |
| Pay cuts | Expectations of big pay cuts | Variable pay cut in IT/ITES | Sigh of relief in the backdrop of more disastrous predictions |
| | | Other sectors managed with minimum damage | Sigh of relief in the backdrop of more disastrous predictions |
| Political stability | Perceived as a major risk factor | Stable government at the helm | Sentiment improved |

Look at it which ever way you want to. The climate in the real estate sector has taken a U-turn in the last few months. I am sure this will reflect in the coming 1 st quarter results of realty companies.

This, however, is not to predict that we are again in for the boom times of 2004-7. **FAR FROM IT.** Several challenges still remain for the economy as a whole and the sector in particular. And it will take a couple of more years before we are finally out of the woods.

But it can be said with confidence that realty sector has now BOTTOMED OUT. Expectations of price corrections from these levels will be unrealistic.