

WILL HOUSING PRICES GO THROUGH THE ROOF SOON?

India's real estate sector went through a seven-year long down cycle. That is now changing

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Last month, Hyderabad-based Aparna Constructions and Estates Pvt Ltd began building a new residential complex across 37 acres in Puppalaguda, on the outskirts of the city, roughly 7.5 km from its business centre, Hitech City.

The apartments will be larger, with ceilings higher than before. The complex will have a segregated sports area and clubhouse, along with health clinics, supermarkets and bank branches on its premises. The improvements are a response to the covid-19 pandemic, so that any future lockdowns or 'work from home' phases inconvenience residents less. Many other property developers are doing the same.

This has, naturally, raised the cost of the homes. The base price of the property is ₹7,599 per sq ft. A three-bedroom apartment costs ₹1 crore, about 5% higher than similar-sized homes Aparna Constructions sold last year.

However, larger apartments and more on-premises facilities are not the only reason for the price hike—the market too has improved considerably. Even last year, Aparna Constructions had hiked prices twice, a combined average rise of around 8%. Yet, it clocked 25-30% growth in sales in 2021 over the previous year. This year, it expects an overall price rise of another 8%, both due to pent up demand and rise in input costs that has led to higher construction costs.

"Our pricing strategy is determined both by the market rate and what we perceive customers should pay for our brand," said Rakesh Reddy, director, Aparna Constructions. "From 2008 to 2015, Hyderabad faced a prolonged down cycle. Home prices were at a lower base compared to other cities. But lately, due to the good performance of the IT companies based here and their hiring momentum, the city is seeing an up cycle. It is an end-user's market driven by the IT and financial sectors."

In 2021, housing sales in Hyderabad were not only higher than in 2020—which was only to be expected, with the pandemic and lockdowns having brought construction to a near halt and crushed demand across the economy—but also more than that in pre-pandemic 2019. According to real estate data analytics firm Lias Foras Rating & Research Pvt Ltd, around 22,378 units were sold last year in the city, compared to 15,028 units in 2020 and 20,261 units in 2019.

Among the eight top property markets in the country, Hyderabad saw the sharpest rise in prices 7% in 2021, and 11% over 2019 (see chart). The weighted average price per sq ft in the city is now ₹6,245 per sq ft, surpassing Bengaluru at ₹5,486 per sq ft.

India's real estate sector went through a nearly seven-year long down cycle, during which prices in most cities corrected and realtors' inventory piled up. But there have been changes since the pandemic, with sales rising in certain categories, prompting some developers to marginally hike prices last year. This year, more developers are expected to follow suit, raising prices by an average of 5-10%, for both fresh launches and existing inventory. The better-known developers want better margins—and also want to pass on a part of the rising raw material costs to buyers.

Nevertheless, some developers are still being cautious. "Steady price increase is a better strategy. In the bull market years of 2000-2008, prices would increase 15-20% after launch. That won't work now," said Sanjay Dutt, managing director and chief executive officer (MD & CEO), Tata Realty & Infrastructure Ltd (TRIL). He expects a 5-7% increase due to escalation in the cost of steel, cement, labour and petrol.

THE HOMO EFFECT
The Hyderabad story is being repeated across the other seven prime markets too. During the pandemic-induced slowdown, developers had offered discounts, easy payment schemes and other price concessions to sell much of that (though not all of it) is over. "Developers are mindful that cash flow has become more important than prices and profitability," said Shaad Mittal, CEO of Motilal Oswal Real Estate, the real estate private equity arm of the Motilal Oswal Group. "They have been absorbing input costs for two years now, and if they can pass it on partly to buyers now, they will surely do so."



A recent survey by Sotheby's International Realty in India among high-net-worth individuals (HNIs) showed that a large number of them proposed to buy luxury property in the next two years.

Far from putting off buyers, the price rise could appeal to them—as an investment—if they see it as a trend. "There is a 'fear of missing out' (FOMO) effect in the sector after a long time," he added. "When prices were stagnant, people were in no hurry to buy."

In Mumbai, the country's most expensive real estate market, prices went through a substantial correction, remaining stagnant for the longest time. But in the past year and a half, helped by a temporary reduction in stamp duty provided in the wake of the pandemic by the Maharashtra government from August 2020 to March 2021, prices have been spiking again.

Today, at 'Artesia', a 152-unit luxury residential complex in Mumbai's south central Worli area built by K. Raheja Corp, the cost of the 20% odd inventory that remains unsold has been pushed up to ₹1 lakh per sq ft. A year ago, Artesia apartments were selling at ₹60,000-65,000 per sq ft. Artesia is the most expensive residential project in the Mumbai Metropolitan Region (MMR), according to Zaplo, which aggregates publicly available property registration data.

"The project is almost complete, delivery is on, so we can command the value of the inventory left," said Ramesh Ramachandran, chief executive of K. Raheja Homes, a unit of the parent company. "For five years before the pandemic, few luxury projects had sold well. But the stamp duty reduction, a long-pending latent demand and the rise in the stock market (through 2021) whose created wealth was often diverted to real estate, have boosted sales."

Artesia is representative of the turnaround in the luxury real estate segment. A recent survey by Sotheby's International Realty in India among high-net-worth individuals (HNIs) showed that a large number of them proposed to buy luxury property in the next two years. While 46% said they were seeking a lifestyle upgrade, 31% believed such purchase would be a good investment—indicating they expected prices to rise further.

Overall, in 2021, as many as 65,457 units were sold in the Mumbai Metropolitan Region (MMR), up 35% from 2020—the highest in value terms among all cities. For Macrotech Developers Ltd, the largest developer in the region (known for its 'Lodha' brand), sales in the October-De-

cember quarter last year were the highest in the last 12 quarters—despite a 3-4% hike in prices last November. It had set itself a revenue target of ₹9,000 crore for 2021-22, but analysts believe it could well surpass that, reaching around ₹9,600 crore.

"We have decided to raise prices twice a year, so the annual increase will be 6-8%," said Prashant Bindal, chief sales officer, Macrotech Developers. "In areas where our inventory is low, it could even be higher. The next round will be after April. Consumers value it. We did not lose any business after the last price hike."

THE LOCATION PREMIUM

In the National Capital Region (NCR), housing sales were up by 33% in 2021 compared to 2020. DLF Ltd, in its latest venture 'One Midtown' in Moti Nagar, West Delhi, sold units in the first two towers built at ₹9,000 per sq ft, but plans to increase pricing by ₹2,500-3,500 for its third tower, whose construction will shortly begin. Another leading developer, M3M, launched its 2,000-apartment 'Soulitude' project in Gurugram at ₹79 lakh per unit, but is currently selling the last 70 units at ₹89 lakh each.

"We can easily expect an average price rise of 8-10%," said Pankaj Bansal, director, M3M. "If the location and product are right, prices will inch up in 2022. Customers have become smart. The market differentiates between good and poor developers. At our Golf Estate project (also in Gurugram), the units we sold for ₹5 crore each now cost ₹5.5-6.5 crore."

Even second homes (farmhouses and holiday homes) and housing plots are seeing a price escalation, not only in NCR but also across smaller, non-metro markets. In some parts of north India, with land prices rising, housing plot prices have spiked 40-50%. "There is frenzy for farmhouses and in and around Delhi," said Shweta Jain, MD, residential services, at property advisory Savills India. "Second home projects are being launched with units priced from ₹50 lakh to 1 crore and even beyond."

Aside from personal use, second homes can also bring in good rental income and make for a sound investment. "A similar trend is visible in popular tourist destinations where land availability is limited, such as in parts of Goa, Uttarakhand and Himachal Pradesh.

mini SHORT STORY

WHAT

During the pandemic-induced slowdown, realtors had offered discounts and easy payment schemes—much of that is over. Sales have been rising, prompting some developers to hike prices.

AND

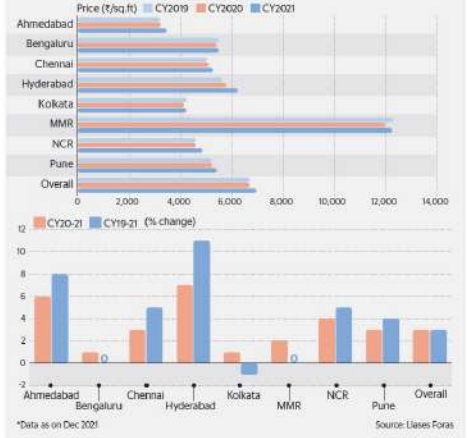
This year, many developers are expected to up prices by an average of 5-10%, for both fresh launches and existing inventory. The better-known developers are seeking better margins.

MOREOVER

Far from putting off prospective buyers, the price rise could appeal to them—as an investment. There is a 'fear of missing out' in the housing sector after a long time.

MOVING UP

Among the eight top property markets, Hyderabad saw the sharpest rise in prices



*Data as on Dec 2021. Source: Lias Foras

December quarter," said Pankaj Kapoor, founder and MD, Lias Foras. "But unsold inventory is not coming down. Even as some developers are increasing prices, real estate remains buyer's market."

Amit Goenka, MD and CEO, Nisus Finance Services Co. Pvt. Ltd, which specializes in real estate services, agreed. "Stressed inventory and many legacy projects will be pushed into the market this year and offered at discounts," he said. "At the same time, plots and properties in key micro-markets, including luxury homes in south-central Mumbai and other prime real estate, will see price escalation. There has been a lot of wealth creation lately and the money will go into luxury housing. But the extent of price rise will differ from one developer brand to another."

Thus, three years after it got stalled, 'The Presidential Tower' project in Yeshwanthpur, Bengaluru, has been reintro-

duced in the market by Mumbai-based sales and marketing specialist firm, Xanadu Realty, partnering with realtor Best Golden Developer, which had started it. It has been able to sell 20 units at a starting price of ₹2.65 crore. "When demand recovered after the pandemic, not every-

body sold," said Vikas Chaturvedi, CEO, Xanadu Realty. "Stuck projects remained stuck." But he is not offering any discount on the units. "The launch pricing has been at the market rate, which was determined after a lot of research," he added. "Our focus is on sales. Just because it is cheap."

However, some analysts maintained developers should exercise restraint while raising rates. "Let's not forget that sales shot up and buyers came in because of affordability."

Some analysts maintained that developers should exercise restraint while raising rates in 2022. Sales have shot up and buyers came in because of affordability.

"If prices increase and developers hold on to inventory, will buyers continue to flock?"