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**EXPERT SPEAK**

**Real estate: The worst is behind us**

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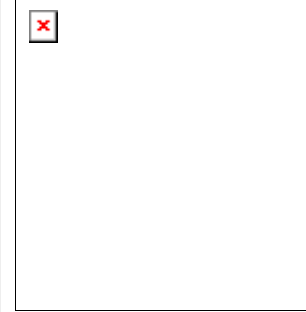
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## Real estate: The worst is behind us



**Author: Anil Rego**



The global meltdown has created havoc in more ways than one; the equity market crashed and like a faithful friend real estate also went down. Among assets, realty has a longer market cycle and already there are subtle signs of recovery, increases in prices itself being a vote of confidence. Big moves are however unlikely in the short-medium term.

The long term story certainly looks impressive, with the economy slowly but surely reviving and equity markets taking a cue from the same. On the domestic front the markets have propelled to the next range post - election result. This has slowly revived the liquidity position in the economy and there are also definite signs of demand picking up.

**Interest rates cooling-off**

The previous year was a tough one, the heady mix of declining property values and illiquid debt markets had created a challenging environment for real estate companies. Authorities and regulatory bodies around the world were forced to take urgent action to address some of these pressures. Some of these steps included, random and severe rate cuts going some way towards making home loans favorable.

The Real Estate sector seems well on its way to recovery, following the successful balance

sheet recapitalization by key Real Estate companies and the pick-up in Real Estate activity. Things could not have been better than what it is now; interest rates have fallen considerably with home loans being awarded at as low as 8% - 9% rates.

#### **Realty Pricing - Undergoes a reality check!**

Realty prices have corrected in line with what the experts claimed, interest rates peaked and started a turnaround. The RBI has also announced a series of incentives to encourage customers to purchase homes. These will go a long way in rebuilding the entire real estate industry.

The real estate sector is a cluster consisting of industrial and service sectors like real estate (Housing Construction, Construction of Commercial offices, Retail and industrial buildings and Infra structure projects), brokerage services, real estate finance services (mortgage banking, real estate investment), real estate operations, property management, architecture and design.

What we have seen recently is clearly a gradual de-freezing of the real estate sector, which has been in a `virtual standstill` since September 2008. Developers seem to have reconciled themselves with the current market dynamics and no longer seem fixated about pricing and margins.

#### **Favorable Govt. initiatives**

While there were huge expectations from the current budget, it did not provide any succor in the form of major initiatives for the real estate sector. The infrastructure sector saw huge funds being laid out, but retail real estate investment did not see any game changer, even though there were expectations that SOPs would be extended to the small housing developers at least.

All is certainly not lost, the budget was only the trailer, and the Government over its 5- year tenure is likely to bring about interesting reforms within this sector. Further, availability of liquidity is more important to the sector than any freebies and the government seems determined to make funding available to the sector.

#### **Financial feasibility check**

Home loans have become a fancy liability that numerous individuals are availing, given the attractive tax-breaks that it has to offer. However, one often overlooks the need to foresee the impact of assuming an EMI on the household budget. It is pertinent to conduct a financial viability check to ascertain the amount one can shell out towards EMI.

During the current recessionary trends, many have lost their jobs, and have been running from pillar to post to continue to support their household, they were facing crucial problems, since they were tied down by huge EMIs, in a frenzy to accumulate assets, they had taken huge loans without conducting a financial feasibility check. Today, studies show that affordability is at its highest in many years, considering the combination of lower prices and also lower interest rates.

#### **Final word...**

Over the long-term, the residential sector will prove to be the most attractive investment

among real estate options, considering the likely change in the investment arena where risk management is expected to emerge as a major focus area, according to a recent study conducted by Jones Lang LaSalle Meghraj (JLLM).

There was a dearth of low-price residential properties in the markets, but better sense has now prevailed and several developers are re-pricing projects downwards and repositioning them as affordable housing. The banks have brought down interest rates and in several cases offered to restructure debts for properties by developers with a good performance track record. All this is slowly having the effect of bringing buyers back to the market. The worst seems to be over now, and there is a clear sense of revival. If one intends to buy a property, the next 3-6 months could be the best possible time to strike an attractive deal. For financing, you can use floating rate loans considering that interest rates are likely to continue to be relatively soft over the next year or so. However, since the outlay is huge, tread carefully, conduct appropriate due diligence about the developers past track record, financing banks, etc. Also please work out your finances carefully before taking the plunge. Let not your EMI be more than 30-40% of your take home salary.

Now`s definitely the time to buy, don`t miss out on this opportunity! However do not expect quick results. Real estate is a long term investment and returns will come by in the long term.

**Anil Rego is the founder and CEO of Right Horizons, an Investment Advisory and Wealth Management Company. Right Horizons has successfully practiced a de-risked model with a Contrarian approach.**