Real estate market hails repo rate cut by RBI

Namrata Kohli, TNN May 12, 2012, 12.06PM IST

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The reduction of 50 basis points on the repo rate comes like light at the end of the tunnel for the real estate sector. The sector has been reeling under the pressures of high land costs, high interest rates, high input cost and low demand. As this will lead to lowering of interest rates on home loans, this step is widely expected to help lower the cost of financing the property for end users. This in turn may spur demand and increase sales of units.

A majority of the developers foresee demand to pick up after this decision. Pradeep Jain, the chairman of Parsvnath Developers Limited and chairman of Confederation of Real Estate Developers' Association of India (Credai), says: "We thank the RBI for considering the real issues of liquidity in this sector. This was indeed a much-awaited step from the RBI, which came after almost thirteen increases in last two years.

"A 50 bps cut in repo rate, bringing it to 8%, is definitely going to boost the liquidity in market. This will clear the supply-side hurdles up to a significant level. We were expecting a rate cut by the RBI to ease the liquidity crunch in the market, which was broadly indicated in the Union Budget 2012-13. The revision of wholesale price index inflation to 6.9% during March-2012 quarter, from more than 9% during its preceding quarter, also gave some liberty to the RBI to go for the rate cut."

The industry is waiting for a significant reduction in interest rates after RBI's decision to cut the repo rates by 50 basis points. A spokesperson of the Mumbai-based Hubtown group says: "This is a welcome step but what remains to be seen is whether it will translate into significant reduction of interest rate.

"For any worthwhile impact on the industry, the basis points should be reduced by 100-150 points. With the current high price of property, as well as upon the financing of it, the demand is drying in the market. Unless there is a rationalization of both these factors , end users will not have the comfort level to enter the market."

There are many who share this scepticism . Simon Rubinsohn, chief economist of RICS, says: "While it is likely that this step of the central bank will feed through into somewhat lower lending rates, there are good pretty weak. As a result , the headline loan to deposit ratio is now at pretty much an all-time high. That said, the home loan market remains one of the more interesting areas for the banking sector, with demand for credit elsewhere flattening off.

"This is likely to result in an increasing level of competition in this particular segment of the market, which could see mortgage rates benefiting more from today's move by the RBI than other lending rates. Even allowing for this, we suspect the impact on the housing market may be relatively modest given the suggestion from the Reserve Bank governor that little more can be expected in the way of monetary easing in the near term. However, we would still view this decision as important in providing support both for the economy and the real estate sector."

"This step has improved market sentiments. So far, we saw interest rates only climbing or galloping ahead. But this cut," David Walker, the executive director of SARE Homes, says, "will not only improve cash flow tremendously , but also encourage homebuyers to buy properties."

The RBI has also removed the prepayment-penalty clause. Naredco has welcomed the RBI's decision to slash repo and reverse repo rates by 50 basis points each. "This is likely to instil confidence in the sagging economy in general and real estate sector in particular, which has the potential in terms of employment generation and GDP growth."

Navin Raheja, the president of Naredco, says: "With banks getting cheaper funds from the RBI, the cost of capital to developers will come down and interest rates will decline. This will revive the declining real estate sector, where most realtors have been reporting a decline in net profits, and boost realty stocks, which have eroded 80-90 % from their peak. Infusion of capital into the sector will see an increase in new launches and expansion in capex (capital expenditure) plans of realtors, which have declined owing to severe liquidity crisis looming in the sector.

"Added to this, the abolition of prepayment penalty on home loans will reduce the burden of homebuyers an encourage more people to venture into the real estate sector. Overall, there is a reason for real estate secto to cheer, which has been under tremendous pressure due to liquidity crunch and rising interest rates in last two years. Rate cut by the RBI is expected to improve supply of housing and return of homebuyers into the market; but to return to 2008-level is still a long wait."

However this cut is not likely to benefit existing borrowers of home loans, as they continue to get financing at older interest rates.

Anuj Goel, the executive director of KDP Infrastructure, says: "It is good news and a big relief for the common man. Home seekers will be tempted to buy property after a reduction in housing loan interest rate and this will ultimately benefit real estate industry. However, the cut will only benefit new borrowers while existing borrowers will have to grapple with the old rates. Banks should allow existing home loan customers to reduce their interest burden by allowing them to re-price their existing loans at lower rates, so that borrowers can switch to prevailing floating rates that are at a discount to the prime lending rate."

It is expected that this step will perk up the demand and indirectly help developers in disposing of the unsol stock. Volume of sales should increase.

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