

RESIDENTIAL LEADS THE WAY

*Post downturn it was the residential sector that bounced back first. **MILAN KOTHARY** examines the reasons*

In recent times there has been significant talk about the role of residential segment in shaping the future of the 'Real Estate Sector' but indulging in retrospection would lead us to the realization that this is nothing new. The 'Residential' vertical was, is and will always be the prime driver for growth since this is the most versatile sector with a faster turnaround time although the recession and the ongoing start of the recovery have led to opportunities calling for reassessment of this sector too leading one to believe that the bad times may well be drawing to a close. The optimism evidenced by such a reassessment especially in the last quarter of 2009 and early part of 2010 is a pointer to this fact.

An analysis of residential markets across India over a variety of parameters including affordability, investment yield, absorption momentum, demographics and migration leads us to conclude that India needs too many houses and there are too few at the moment. It is only a matter of time before pent-up demands manifest as hard-core sales. With transaction volumes rebounding, and pricing improving, the Indian residential sector has certainly been leading the way to recovery. Low interest rate offers, special home loan packages, an improvement in employment outlook and self-liquidating returns for developers have only served to add to the optimism.

Why residential? The relatively stronger internal fundamentals and the lack of dependence on foreign demand are seen as key advantages as India has managed to mitigate the severe recession that has hit most several countries. With rapid urbanization, demand is likely to grow and with the economy estimated to grow upwards of 7% next year, confidence among buyers is back. While the final verdict on economic revival may still be pending, the uptake in housing sector has definitely shown signs of revival.

As India transforms into an urban majority nation it will need to accommodate another 400 - 450 million people in the urban space. India's future urbanization is not just about migration to mega-cities like Delhi, Mumbai and Bengaluru, since the existing large cities are already bursting at the seams. Urbanization will have to be done to include essentially existing small towns that will soon assume importance as economic, social and cultural centers. Urbanization of villages and building of brand new towns in the peripheral regions of huge metros and important economic centers with suitable infrastructure in place, calling for 'urban planning' in the true sense of the term will also be part of such a development.

Whilst it is true that with the advent of urbanization the residential sector will always lead the way in ensuring that the 'Real Estate Sector' will have a bright future it is also important to realize that we need to build next-generation cities by incorporating public transport into the urban design. Successful cities are an evolving mix of all kinds of activity - residential, commercial, retail, industrial, etc. including the much maligned street hawkers that form a part of Indian urban tradition with (of course!) residential leading the way. The most challenging task for such a city, however, is provision of an efficient transportation and connectivity system and an even more efficient civic service system since most such 'created' cities, at initial stages don't generate their own economic activities and residents are forced to commute to the neighboring areas or nearest business districts for their daily bread. Thankfully much of urban India is yet to be built and we have enough time and opportunity to change our models for the impending urban boom.

But then again - what would lead to the revival of this residential segment in the impending urban boom? The recession and the anticipated forthcoming recovery do offer a unique opportunity to reassess such a business. In the real estate sector the classic response to a demand slowdown is to cut prices in the short term, lower profits and encourage demand to retain the market share. Under circumstances where there would be no scope for price reduction, the alternate strategy would be to identify the market segment that holds potential and build strategies for that particular segment.

Until now, the real estate boom in India meant that developers and builders could make money by simply catering to the premium market but with this market having gone through

somewhat of a negative phase, developers are now eyeing low-cost (affordable) housing. One cannot ignore the fact that the financial crisis had at least some of its roots in over-inflated real estate. It has thus become even more important to align products and services with doable strategies. So, suddenly 'affordable housing' is the buzzword in the Indian real estate sector. 'Affordable housing' is also the Indian government's new mantra. For this to happen, the government is banking on public private partnerships (PPP). This implies that the government will set up the enabling framework and private sector players like developers and microfinance institutions (MFIs) will partner to deliver the affordable housing units. Although the margins realized from single affordable housing units are not too flattering, the volumes generated would lead to high absolute profits. The Indian industry body, ASSOCHAM, asserts that housing demand is poised to see a growth of around 80 million for the lower-income and the lower-middle income groups.

Whatever the case and whatever the arguments and counter arguments the fact remains that the residential sector has emerged as the sole bright spot in the face of a recovering economy. Whether or not this trend continues depends largely on issues relating to prices and the quality of the products offered, since the top reason for buying residential property will continue being 'affordability' and 'value for money' with infrastructure playing a pivotal role.

QUICK BYTES

DEVELOPERS ARE NOW LOOKING AT AFFORDABLE HOUSING AS THERE SEEMS MORE SCOPE FOR PROFIT

WITH TRANSACTION VOLUMES HIGHER IN THE RESIDENTIAL SECTOR, IT IS BOUND TO LEAD THE WAY

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