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No room for further cuts in home prices, say realtors

RBI Governor Raghuram Rajan on Monday had asked real estate developers to reduce prices to encourage more people to buy properties

Ravi Teja Sharma & Kailash Babar | ET Bureau | 27 April 2016, 7:14 AM IST

**NEW DELHI | MUMBAI:**

Responding to Reserve Bank of India Governor Raghuram Rajan's call to builders to cut home prices to stimulate housing demand, real estate developers and industry experts said there is very little wriggle room for any further price cuts.

"Over 90% of the real estate supply in the country is now in a very affordable band and

has already corrected. In some places prices have come down 25-30%. There is no further scope for any cuts," said Getamber Anand, national president of the Confederation of Real Estate Developers' Associations of India.

Any further cuts, Anand said, will spawn NPAs (nonperforming assets) and result in non-delivery of projects by many developers.

The past two years have been among the worst for India's housing market, with apartment sales slowing down and unsold apartment inventory levels reaching record highs. According to property research firm Liases Foras, the top eight cities had 1,124.9 million sq ft of unsold inventory at the end of December 2015, up 21% over that a year ago.

The central bank has cut rates by 1.5% since January 2015. It cut the key policy rate by 0.25% to 6.5%, the lowest in more than five years.

"I am hopeful that as interest rates come down, there will be more credit and buying. And I am also hopeful that prices adjust in a way that encourages people to buy," Rajan had said on Monday in the YB Chavan Memorial Lecture in Mumbai.

Dharmesh Jain, president of developers' body MCHI-CREDAI said builders will be more than happy to rationalise prices and get more business.

"Unfortunately, when we look at the economics of it including land cost, input cost and taxes, we don't see much scope for this," Jain said.



Jain referred to taxes, which he said are at an all-time high of 28-43% of overproperty, depending on the location. Full price of a property, depending on the location.

"Most developers are offering best possible prices considering subvention schemes and other offers being given currently. However, since RBI governor has suggested, we will sit together to see how we can do more,"

Jain said, even as he urged banks to pass

on the rate cut to home loan takers. Over the past one year or so, many builders have tried to stimulate the market by offering subvention and other schemes, where buyers pay a small amount upfront and take a loan for the rest but start paying interest on their loan only after possession.

Sekhar Reddy, managing director of developer CSR Estates in Hyderabad said land cost, which is a big component of housing, is not in the builders' control.

"Every state government, to meet its revenue targets, is escalating circle rates every year. So every year price of land is going up. Unless you curtail land prices, housing prices cannot come down," Reddy said.

Pointing to increasing labour costs and a massive shortage of skilled labour, Reddy asked, "given all of these things, how can we reduce prices?" He suggested that due to high unsold inventory in the market there is anyway pressure on pricing due to competition in this buyers' market.

This has meant prices have indeed come down in most markets over the past two years.

Liasis Foras' managing director Pankaj Kapoor said: "If you look closely, prices have been lowered in new launches. If we take a weighted average price of the under-construction inventory and of new launches in any city, there is close to 15-20% reduction."



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