

CUT AND THRUST

Banks to cut lending rates, sector set to revive soon

Prime Minister Narendra Modi recently announced at a rally that his government's demonetization drive will push banks to cut lending rates significantly, triggering economic revival across the country—especially, in the real estate sector

The Modi government's demonetization exercise will hit the real estate sector hard—in the short term—as it has traditionally seen a very high component of black money and cash transactions.

However, this is also likely to make property cheaper and will particularly boost affordable housing, experts say.

"After the recent demonetization of higher denomination notes, the affordable housing segment and the salaried class are going to be two obvious beneficiaries. Land prices are expected to see a correction in values, more so in the Tier II, III cities and the fringe areas of metros. This will pull down unit prices and help make houses more affordable in India," Anuj Puri, chairman and country head, JLL India, said.

Affordable housing, in fact, is mostly available in the fringe areas of metros as land prices are cheaper there compared to prices within city limits. With land prices coming down, these projects could see higher sales.

Buyers in this segment, on the other hand, stand to benefit from not only lower unit prices in the coming months but also a likely fall in home loan interest rates.

The Prime Minister recently announced at a rally that his government's demonetization drive will push banks to cut lending rates significantly, triggering a revival in economic activity across the country.

Media reports have quoted the Reserve Bank of India saying that banks have collected deposits of nearly Rs 5.4 lakh crore between November 10 and 18, while they disbursed only about Rs 1 lakh crore.

As a result of this surplus liquidity, many banks have already brought down deposit rates by 15 to 25 basis points in a bid to increase lending. Some economic analysts further expect a reduction of 50-75 bp in lending rates in the next four to five months' time.

ly affordable housing, as the interest rates are expected to fall. Banking systems are bound to see a windfall of funds as a positive impact of demonetization, which will increase their lending capacity and, in turn, drive down the interest rates for both deposits as well as loans. Lower interest rates will

bring down the EMIs on home loans, making real estate more affordable by reducing the overall cost of investment," Bansal says.

Given the Modi government's focus on affordable housing, the segment has already attracted big players like Mahindra Lifespaces, Tata Housing,

Shapoorji Pallonji Group, Assetz Property Group, and Puravankara Projects, among others. Another player, Emgee Group, is planning an investment of Rs 1,600 crore in the affordable housing segment over the next five years.

A JLL India report says that private equity (PE) players are willing to partner with developers operating in this space and fund such proj-



ects. Nisus Finance Services, Brick Eagle Capital, Avenue Venture Partners Real Estate, Carlyle, Essel Finance Advisors and Managers LLP, Provident Housing and International Finance Corp are some of the PE firms helping developers with funding for their affordable housing projects.

All these developments, along with the removal of black money, to a large extent, are likely to make housing cheaper in the near future. "A fall in interest rates would further add on to the growth of affordable housing, which will be visible more in the longer term," Sumit Berry, managing director of the BDI Group, said.

Overall, demonetization is currently being seen as a blessing in disguise for affordable housing. "Land prices may fall by 20-30% in the coming months. This will help builders pass on the benefit to end users. Demonetization will also clean up the real estate and, together with RERA, may weed out the element of black money from the sector," Pradeep Aggarwal, chairman and co-founder of Signature Global, said.

—Sanjeev Sinha



FAST FACT

PM MODI'S DEMONETIZATION IS BOUND TO BOOST THE RESIDENTIAL SEGMENT, ESPECIALLY AFFORDABLE HOUSING, AS THE INTEREST RATES ARE EXPECTED TO FALL. LOWER INTEREST RATES WILL BRING DOWN THE EMIs ON HOME LOANS, MAKING REAL ESTATE MORE AFFORDABLE BY REDUCING THE OVERALL COST OF INVESTMENT. —ATUL BANSAL, PRESIDENT (FINANCE AND ACCOUNTS) OF M3M GROUP

"This can certainly bring down home loan interest rates, provided that the banks pass down the benefits to homebuyers. If previous rate cuts by the RBI are passed on too, interest rates on home loans could come down by up to 2%. This could spur demand among the service class for housing across the country," Puri said.

Atul Bansal, president (finance and accounts) of M3M Group, also says that low interest rates will give real estate a massive boost by raising positive sentiment—and demand.

"PM Modi's demonetization move is bound to ensure a boost in the residential segment, especial-