

Budget 2012: Spell affordable housing policy to benefit from ECB availability

Source: MagicBricks.com Bureau



Budget 2012 announced that external commercial borrowing (ECB) can be sourced for the low-cost housing sector. However, industry majors, speaking at Budget India 2012 - The Property Quotient organised by magicbricks.com, maintain that with no policy on affordable housing, the move could well be a non starter.

The event, held at Times Center, Noida on March 16 was attended by R V Verma, CMD, National Housing Bank (NHB), Navin Raheja, President, NAREDCO & CMD, Raheja Developers, Dr. P R Swarup, DG, CIDC, Om Ahuja, CEO-Residential Services, Jones Lang Lasalle, Sanjeev Srivastava, CMD, Assotech Ltd, Vikas Gupta, Joint MD, Earth Infrastructure, David Walker, ED, SARE Group and Amit Raaj Jain, Sr. VP - Marketing, BPTP Ltd.

R V Verma of the NHB believes that the government is facilitating the sector to go

after the volumes. "The affordable housing sector is typified by low margins, and it becomes attractive only if developers are enabled to produce greater volumes. Better capital availability will help in timely project execution, which will result in higher volumes," he said.

Dr Swarup of CIDC says the entire formula hinges on facilitation of finance to the right developers. He fears that the banking segment that was overleveraged to the real estate sector in 2006-2007, is now facing a host of bad debts. "While the extent of the problem is not clear yet, going by the propensity of the sector to drag down economies and governments, a similar scenario could well be developing in India. However, not all developers need to be painted with the same brush."

Debt is an issue with all the developers - sales not increasing, margins are going

down, input and land cost is high and clearance process is time taking. Real estate is running into a problem. This was a 'flat' budget, according to Raheja. "Real estate is in for reorganisation. There are tough times ahead. The industry will be organised on the basis of the quality of functioning and the way the developers have leveraged themselves."

Real estate developers believe that the Budget 2012 has not given enough to the sector. Factors like need for escrow accounting at developer and local body level, provisions for infrastructure, call for self-regulation, changes in financing mechanism, and single-window clearances continue to remain the concerns amongst developers.

Till speedy clearances to projects, facilitation by Urban Local Bodies and easy access to finance go hand in hand, a Budget declaration of allowing ECB for affordable homes is not going to change the housing scenario at all. Srivastava of Assotech said "there has been no policy on affordable housing, no clarity on which projects the money is to be taken to." So what would the developer raise money for and how? This

has been a problem plaguing the realty industry for long. While policy statements in the Budgets sound impressive, the lack of clarity in detailing the operational details more or less renders the issue null and void.

Walker of the SARE Group said even with access to funds, creating affordable housing was a challenge, "considering construction cost and local policies, which

make building high-rise and multi-storey apartments in this segment very difficult." Despite SARE having enough liquidity to complete projects, Walker feels the delayed approval process as well as the fact that money paid for External Development Charges are not escrowed and allowed to service the particular project, is a hurdle. As a solution to this, most participants felt that both industry, as well as local authorities need to come into the ambit of a real estate regulator.

According to Ahuja of JLL, "Job creation is the key to a vibrant market in residential, retail and office developments. In cities like Chennai, Hyderabad, Bangalore, Pune and Gurgaon, where job creation is vibrant, real estate gets a boost."

Jain of BPTP explained, "One needs Rs 1,000 to 1,500 crore to build 0.5 to 3 million sq ft of commercial space. No developer has this much money on his balance sheet. As a result when this sector is not open to formal finance, the shortcomings in the financing mechanism is detrimental to a robust growth."

All segments of real estate cross drive each other, said Jain. In Gurgaon, which started very well in retail, because of good residential and office occupancy, the slow-down was due to lack of proper regulation. While commercial office space precedes residential real estate, retail typically follows housing and picks up in 1-4 years once people move into an area.

Gupta of Earth Infrastructure was bullish about commercial real estate. "This segment will pick up when employment picks up. When there are more and more companies that occupy office space, recruit workforces and generate more employment, retail will pick up."

Srivastava said the problem was magnified when real estate players do not read the demand profile correctly.

EXPERT SPEAK



R V Verma
CMD
National Housing Bank (NHB)

The affordable housing sector is typified by low margins, and it becomes attractive only if developers are enabled to produce greater volumes.



Navin Raheja
President
NAREDCO & CMD, Raheja Developers

There are tough times ahead for real estate. The industry will be organised on the basis of the quality of functioning and the way the developers have leveraged themselves.



Dr. P R Swarup
DG
CIDC

While the extent of the problem is not clear yet, going by the propensity of the sector to drag down economies and govt., a similar scenario could well be developing in India.



Om Ahuja
CEO-Residential Services
JLL

Job creation is the key to a vibrant market in residential, retail and office developments. In cities like Chennai, Hyderabad, Bangalore, Pune and Gurgaon, job creation gives a boost.



Sanjeev Srivastava
CMD
Assotech Ltd

There has been no policy on affordable housing, no clarity on which projects the money is to be taken to.



Vikas Gupta
Joint MD
Earth Infrastructure

Retail will pick up when there are more and more companies that occupy office space, recruit workforces and generate more employment.



David Walker
ED
SARE Group

Delayed approval process as well as the fact that money paid for External Development Charges are not escrowed and allowed to service the particular project, is a hurdle.



Amit Raaj Jain
Sr. VP - Marketing
BPTP Ltd

When real estate sector is not open to formal finance, the shortcomings in the financing mechanism is detrimental to a robust growth.

Key Takeaways:

- Capital availability will help in timely project execution, which will result in higher volumes
- Job creation is the key to a vibrant market in residential, retail and office developments
- Need for escrow accounting at developer and local body level
- Call for self-regulations, single-window clearances, changes in financing mechanism required
- Both real estate industry and local authorities need to come into the ambit of a real estate regulator
- Real estate is in for reorganisation