THE ECONOMIC TIMES | Industry
English Edition ▾ | 09 June, 2022, 10:48 AM IST | Print Edition

RBI repo rate hike may reduce realty sales momentum, but recovery to continue

Synopsis
The central bank's decision to relax housing loan norms of cooperative banks by increasing the limit for individual housing loans by 100% is expected to support the real estate sector in tier 2 and 3 cities and towns with a multiplier effect on the economy. These limits were last revised for urban co-operative banks (UCB) in 2011 and for rural co-operative banks (RCBs) in 2009.

Hike in limit for co-operative banks' property loans to help funding options for the real estate sector.

The Reserve Bank of India's decision to hike repo rate by 50 basis points taking the cumulative hike in rates to 90 basis points in less than 40 days is expected to impact the pace of growth in demand for properties and actual conversion into sales.

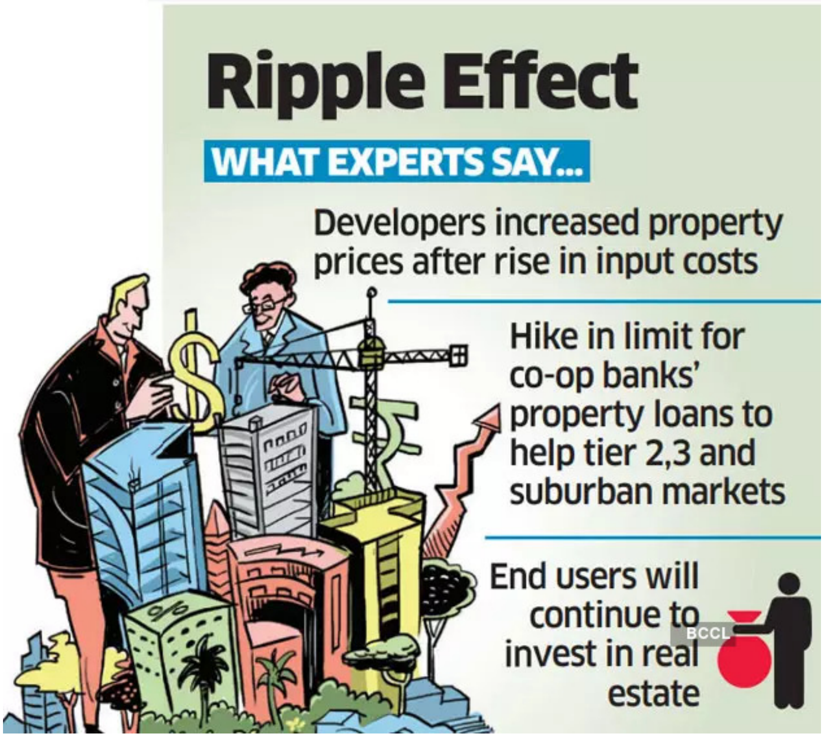
However, the recovery in housing sales may not see a significant dip at least for now as the pent-up demand remains strong, experts said.

Following the surprise hike in repo rate in May, the home loan rates have already started moving upward from their all-time lows that have been helping key property markets surpass pre-Covid levels and witness record sales.

Residential property market's robust comeback amidst the outbreak of the pandemic was driven by low interest rates and stamp duty reductions and incentives offered by the developers.

"The rate hike by RBI will impact the growth in residential sale, albeit in the short term. The low interest rate was one of the biggest reasons for the sale to breach the pre-Covid level... Hopefully, once the global supply chain is restored, normalcy will return again," said Rajan Bandelkar, President, NAREDCO National.

According to him, developers across the country recently hiked property prices owing to continuous rise in the raw material cost and homebuyers understand that these factors are beyond developers' control and they will continue to invest in real estate.



While the pent-up demand from end-users and their affordability levels will still remain in the positive zone, the hardening of interest rates is likely to slow down the sales momentum, experts said. According to them, the recovery in the real estate market will continue albeit at a relatively slower pace.

"After maintaining an accommodative stance for almost two years due to the pandemic situation, the central bank is taking steps that are necessary to ensure domestic economic recovery. With consumer loans and home loans getting costlier, there may be an impact on demand in the short-term," said Harsh Vardhan Patodia, President, CREDAI. "The proposal to permit rural co-operative banks to extend finance to commercial real estate within the existing limit of 5% of their total assets will bring in more funding into real estate."

The central bank's decision to relax housing loan norms of cooperative banks by increasing the limit for individual housing loans by 100% is expected to support the real estate sector in tier 2 and 3 cities and towns with a multiplier effect on the economy.

These limits were last revised for urban co-operative banks (UCB) in 2011 and for rural co-operative banks (RCBs) in 2009.

"The 100% upward revision in credit limit for individual homebuyers through cooperative banks will provide increased credit access to homebuyers in suburban areas as well as tier-2/3 cities," said Samantak Das, Chief Economist, and Head Research and REIS, India, JLL.

According to him, allowing rural and district cooperative banks to lend to housing developers under the commercial real estate – residential housing (CRE-RH) categorization within their 5% credit limit of total asset base will support developers of affordable housing projects that have struggled for finance, especially for projects in the peripheral and smaller urban centres.

The limits for tier I and II UCBs have now been increased to Rs 60 lakh and Rs 1.40 crore from Rs 30 lakh and Rs 70 lakh, respectively. For RCBs, the limits have been increased from Rs 20 lakh to Rs 50 lakh for RCBs with assessed net worth less than Rs 100 crore; and from Rs 30 lakh to Rs 75 lakh for other RCBs.

According to Sanjay Dutt, MD & CEO of Tata Realty and Infrastructure, the inflation trajectory hereon needs to be watched closely as the input cost for supply is on the higher side, and combined with the loan rates, it will cause mild discomfort to homebuyers because prices will now rise and will quickly return to pre-pandemic levels.

“Overall, we are in the rising economic period where we need to arrest this and make sure proactive efforts are made by the government and reverse the cycle. I genuinely believe there would be some central government initiatives to focus on the larger picture,” Dutt said.

Indian real estate has been buzzing with robust sales across key property markets including tier II and III cities.

The strong demand conversion undercurrent has been driving sales of both listed as well as private realty developers as indicated by their recent quarterly revenues that have touched multi-year highs. The enquiries and conversion into actual property sales has improved in the last few quarters for many developers especially the large developers with established delivery track record.

RATE THIS STORY

(Catch all the ***Business News***, ***Breaking News*** *Events and* ***Latest News*** *Up* ***...more***