Financial crisis hits India's funds-thirsty realty sector

India's funds-parched realty industry, already reeling under dropping sales, high interest rates and drying up of private equity sources, has to grapple now with credit squeeze wrought by an unexpected quarter: the global financial tsunami.

'This is a really hard time for developers,' said Rohtas Goel, chairman and managing director of leading real estate firm Omaxe.

'On one hand, sales are dropping because of rising home loans and on the other, developers are facing a credit crunch, which is halting many projects,' Goel told IANS.

What has also added to the problem, according to Anuj Puri, chairman and country head of real estate consultancy Jones Lang La Salle Meghraj, is the Reserve Bank of India (RBI) restriction on Indian banks from financing real estate companies.

'Real estate firms were mostly dependent on foreign funds through the FDI (foreign direct investment) route and private equity. But after the global crisis, private equities that usually fund big projects are now shying away,' Punj said.

According to industry sources, several realty majors have decided to go slow on their projects, especially in large cities, because of shortage of working capital, as banks have not only withdrawn overdraft facility but also decided not to process any more corporate loans.

In fact, the performance of realty stocks also reflected the ground reality, with the index for the sector on the Bombay Stock Exchange (BSE) falling by 11.3 percent Friday - the steepest among all the 13 sector-specific indices.

The index has fallen more than 45 percent over the past month and by a whopping 75 percent over the past year. The stock of DLF, for example, is now precariously close to its 52-week low and so is the case with Jaiprakash Associates, Unitech and other realty majors.

It is not just the small developers who are facing the crunch. Big developers too have started feeling the heat.

A senior official at Unitech, one of the leading developers, added another dimension to the problems faced by realtors.

'Many private equity funds were launched by investment banks like Lehman Brothers and Merrill Lynch. But now, as their fate is uncertain, money for investment will dry up. This will put a severe constraint on availability of funds in India,' the executive, who did not wish to be identified, told IANS.

Added an official from DLF, the largest player in the sector, also speaking on condition of anonymity: 'As the availability of funds from the banking sector is restricted for the realty sector, we are forced to borrow from the high net worth individuals at high rates of around 20 percent.'

Sanjay Verma, South Asia managing director of Cushman and Wakefield, said: 'There is no alternative to credit. Land transactions have dried up due to developers' inability to bring funds. The fund-raising plans of developers have also changed and some have limited their expansion plans'.

'There is a complete lack of activity in realty business. You can see that there has been no fresh announcement in the realty sector. Developers are mainly struggling to complete the pending projects,' said Punit Saxena of real estate consultants Axiom.

'The demand has already slackened by 30 percent and even though developers are offering discount up to 30 percent, sales are not picking up,' Saxena said.

Despite all the negative sentiments percolating down the sector, there's also the hope that the situation could just turn for the better.

Developers say the RBI's move to cut the cash reserve ratio (CRR) twice in quick succession - and which is expected to pump in Rs.600 billion into the system - will help revive the market and bring about an element of stability.

'We are hopeful that this step will make an impact on lending and borrowing rates and we may see a reduction in the interest rates on various loans, home loans in particular, which will bring in some relief to real estate sector,' Goel of Omaxe said.

Echoed Punit Beriwala, managing director of real estate developer Vipul: 'The step would bring some relief. We expect a greater availability of funds. We also expect a cut in home loan interest rates. All this could lead to a rise in real estate development activities.'

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