

ASSOCHAM
INVESTMENT
METER

**“Real estate sector investments:
Assessment & Outlook”**

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Credit choke and slackening demand plunged the real estate investment announcements by 82 per cent: Assocham Investment Meter

The real estate sector investment plans slumped drastically from Rs 1,15,326 crore in Q1 FY 08-09 to meek Rs 22,482 crore in the third quarter of the fiscal. Owing to tighter credit and a steep decline in demand, capex announcements of the sector plummeted 82 per cent between the first and the third quarter of the fiscal, according to an Assocham Investment Meter (AIM) study.

According to the AIM study titled **“Real estate sector investments: Assessment & Outlook”**, Even as the economy face major shortage of housing and commercial space, the subdued demand due to high interest rates, credit tightening and global financial crisis have dampened the real estate investment plans. The capital expenditure announcements in the sector have witnessed a sequential decline of 68 per cent and 38 per cent in second and third quarter of the fiscal so far.

The sector witnessing a plunge in demand by up to 50 per cent leading to a drop in prices by 15-20 per cent has dampened the investment announcement in the sector during the first three quarters of the fiscal.

Despite a huge shortfall in the housing sector requirements, the demand has declined due to higher interest rates and economic slowdown. According to an Assocham study **“Reality check on Real Estate”**, India has a housing shortage of about 19.4 million units. It is also estimated that an additional 45 million units would be required during the 11th plan (2007-2012). The slowdown in the housing sector demand is adding to the pains of the sector as it constitutes almost 80 per cent of the Indian real estate development.

QUARTERLY INVESTMENT ANNOUNCEMENTS:

The real estate sector investments declined from Rs 1,15,326 crores in Q1 FY 09 to Rs 36,400 crores in the second quarter owing to the aftermaths of monetary policy stance which kept interest rates higher to cool off then soaring inflation. The spike in interest rates led to a fall in housing and commercial demand for the sector. During the period the central bank raised its repo rate by 75 basis points to 8.5 per cent.

During the third quarter (October-December 08), a sequential decline of 38 per cent in the capex announcements of the sector, to Rs 22, 482 crores from the previous quarter could well be attributed to the buoyant call rates in the money market. With the banking sector's increased reluctance to lend, the freezing credit situation had its share in drying up the sector's investment plan.

REAL ESTATE CAPEX ANNOUNCEMENTS-(April-December) 2008			
Quarter	Month	No. of projects announced	Proposed investments (in Rs crore)
Q1	Apr-08	8	24826
	May-08	6	89250
	Jun-08	2	1250
	Total	16	115326
Q2	Jul-08	2	14400
	Aug-08	5	15650
	Sep-08	3	6350
	Total	10	36400
Q3	Oct-08	4	1882
	Nov-08	3	1600
	Dec-08	4	19000
	Total	11	22482

Source: Assocham Research Bureau

TOP FIVE CAPEX ANNOUNCEMENTS:

The number of projects announced by the domestic real estate companies also declined from sixteen in Q1 to ten in Q2 and eleven in Q3 FY 2008-09. Among the top five investment announcements for the sector, In May 2008, Omaxe had announced the biggest capex plan worth Rs 80,000 crores to develop ten lakh affordable homes in Haryana & Rajasthan during next five years.

In December 2008, India's largest real estate company DLF ltd. had announced the plan to invest Rs 15,000 crore in middle income (in the range of Rs. 15-40 lakh) residential projects countrywide during the coming three years.

Ansal API, in July, announced Rs 13000 crore capex plan to develop a township, touted as one of the biggest hi-tech cities in the country in Greater Noida within eight years.

With a capex announcement of Rs 8000 crore in April 2008, Uppal group had plans to develop four SEZs in Gurgaon and UP in the coming five years.

In August 2008, ETA Star Property Developers Ltd. had announced its plan worth Rs 7500 crore to setup a mega integrated township in a sprawling 400 acres of land in Sriperumbudur near Chennai.

TOP 5 REAL ESTATE CAPEX ANNOUNCEMENTS (April-December) 2008		
S.No.	Company	Proposed investment (in Rs crore)
1	Omaxe	80000
2	DLF Ltd.	15000
3	Ansal API	13000
4	Uppal group	8000
5	ETA Star Property Developers Ltd.	7500

Source: Assocham Research Bureau

SLOWDOWN INDICATORS:**Construction**

The slowdown in the realty sector could be witnessed due to the rapidly falling construction activity. Construction sector, whose share in the GDP rose from 6.6 per cent in 2004-05 to 7.3 per cent in 2007-08, has slowed down considerably from the first quarter of the fiscal. The sector's growth rate has dipped from 11.4 per cent in Q1 FY 09 to 9.7 per cent in Q2 FY 09.

Cement & Steel

Among the major indicators depicting the grim investments in the real estate sector, the Cement and Steel sector; which have direct forward linkages to the real estate sector, slowed down significantly. The contraction in demand from the real estate sector due to the decelerating pace of investment activity caused shrinkage in the industrial production of these two industrial segments during the second quarter of the fiscal.

The cement and steel sector production growth rate were down by 4.3 per cent and 6 per cent respectively in Q2 FY 09 from a year earlier. With industrial production growth rate turning negative in October and a further likelihood of demand slowdown in the economy taking hit on the industrial activity, the real estate sector could be impacted severely by the slowdown in these crucial supplementing sectors.

External Commercial Borrowings

Given the prevailing global credit crunch, the external commercial borrowing route to finance the construction sector has seen a major downward slide. From USD 642 million during April-September 2007-08, the ECBs of the construction companies fell drastically to USD 21 million in the corresponding period this fiscal.

FOREIGN DIRECT INVESTMENTS:

During the first six months of the fiscal, the only silver lining for the real estate and housing sector was on the foreign investment front. The FDI in the sector grew at a whopping 129 per cent over the corresponding period last year. Although the foreign sector investments standing at Rs 6807 crore amounts to a small proportion of less than five per cent of the sector's domestic capex announcement of Rs 1,53,771 crore during H1 FY 09, the foreign investments are providing a cushion to the ailing real estate sector.

OUTLOOK 2009:

With the concentrated efforts of the government and the central bank to heal the Indian real estate sector which is crippled by credit freeze and falling demand, the stimulus packages for the sector along with the lowered interest rates are expected to revive the sector; provided the lending to the sector is made smooth and consistent.

If both the public as well as private sector banks pass on the benefits of enhanced liquidity and rate cut reductions by the RBI and kick start lending to the sector, combined with the ECB relaxations and other incentives announced in two fiscal stimulus packages are likely to support the real estate companies in financing their projects.

The main challenge as to remain on demand side, with demand of commercial property in doldrums because of the sinking business confidence, the residential demand could improve due to lower interest rates. The swift policy actions like cheaper home loans up to Rs 20 lakh may push up the demand.