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How India plans to sustain property boom on back of growing economy

Developers hopeful sales will remain strong over coming weeks, as festive season kicks off peaking with Diwali next month



India is enjoying a property boom – and real estate experts say they see no signs of it slowing down any time soon.

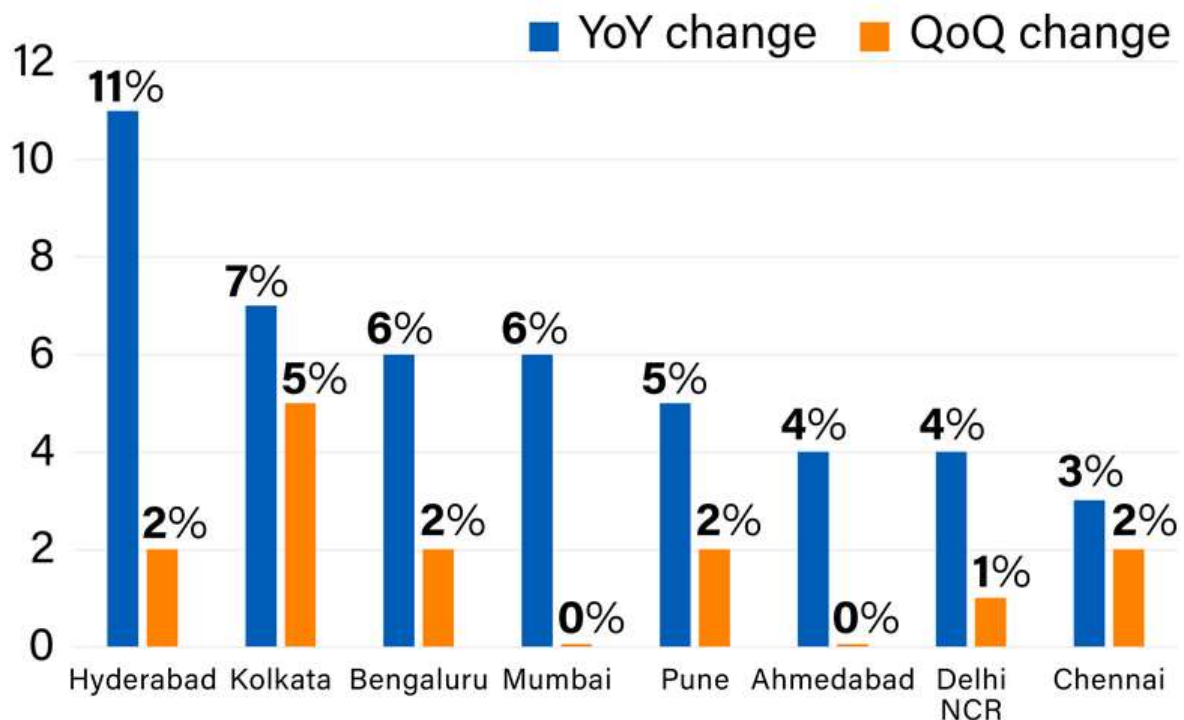
India is enjoying a property boom – and real estate experts say they see no signs of it slowing down any time soon.

“Properties are getting sold out within days and sometimes within hours of a launch,” says Anupam Rastogi, co-founder and chief business officer at Square Yards, an Indian real estate advisory firm. “Such events haven’t been seen in India’s property market before.”

Home sales in the July-September quarter rose by 12 per cent compared to the same time last year, reaching 82,612 units across eight of India's biggest cities, including Mumbai, Delhi, Bengaluru and Hyderabad, a report by property consultancy Knight Frank said.

Prices were also up across these cities. Hyderabad's prices increased by the most in the quarter on the year, up 11 per cent, while Mumbai's prices were up 6 per cent, data from Knight Frank shows.

AVERAGE PRICE CHANGE ACROSS MARKETS DURING Q3 2023



Source: Knight Frank Research

India's property market is in the middle of a “strong demand” cycle, says Mr Rastogi.

“This phenomenon will continue over the next three to four years, provided that the economy remains robust,” he says. “The housing demand we are witnessing has been coming on the back of a strong economy.”

Developers say they are reaping the rewards of this growing appetite, which they saw accelerate in the wake of the Covid-19 pandemic, following years of the market being largely subdued. Buyers have continued to flock to the market over the past year, despite relatively high interest rates.

“The pandemic and lockdowns helped people realize the importance of having a home,” says Jajit Menon, director, sales, marketing, customers relationship management and product at Shriram Properties, a developer of luxury homes with projects in cities including Bengaluru, Chennai and Kolkata.

The Bengaluru-based Shriram Properties says that it has seen a surge in sales this year.

“Given the dynamic market conditions and high demand, the company has successfully sold 10.8 million square feet over the past three years,” says Mr Menon

“The overall sentiment in the Indian real estate sector remains bullish” and the company is anticipating a continued growth in sales over the next two years, he adds.

“We have witnessed a growth of 40 per cent in sales year-on-year,” says B S Nesara, chairman of Concorde, another developer based in Bengaluru. “Prices for our properties across

segments have increased between 18 per cent and 40 per cent.”

One significant driver is “renewed interest in home ownership, as more individuals and families seek to invest in real estate”, he says.

A trend that people in India are increasingly looking to upgrade their homes is also helping to drive demand, he adds.

Knight Frank's report reveals that the share of home sales in the 10 million rupee and above category in India shot up by 35 per cent in the July to September quarter. The consultancy attributes this to homebuyers wanting to upgrade to bigger living spaces with better amenities.

“In addition to this, several other factors, including the delicate interplay of supply and demand dynamics, the influence of prevailing interest rates, government policies and interventions, employment trends, investor sentiment, and state-specific policies, contribute to the growth of increasing price points in the real estate market,” says Mr Nesara.

He remains upbeat on the outlook. “Pricing of the housing market is expected to rise due to growing demand and limited supply. This surge in demand is particularly driven by the entry of aspirational Gen Y buyers,” he says.

Prices in major economic hubs “continue to soar despite an influx of new residential projects”, says Mazhar Syed, director at AsmitA India Realty. “Prices in major economic hubs continue to soar despite an influx of new residential projects”, he says.

“Despite global real estate market difficulties, the Indian real estate business is booming. Several reasons drive this achievement, including robust economic growth, favourable demographics, and greater foreign investment.”



A construction site in New Delhi. India's property market is in the middle of a strong demand. Reuters

Developers are hopeful that sales will remain strong over the coming weeks, as the festive season has kicked off in the South Asian country, peaking with Diwali next month. It is traditionally a time when Indians make big purchases including homes, because it is considered an auspicious time to buy.

“The consumer sentiment remains positive, and we are witnessing an all-time high in consumer interest during these festive times,” says Aditya Kushwaha, chief executive and director at Axis Ecorp, a real estate developer.

“For us, the last couple of years have been very positive and we continue to maintain a strong growth trajectory in terms of sales.”

He says the growth is being bolstered by “strong and growing interest from NRIs (non-resident Indians) in regions such as the Gulf, the US and Singapore”.

“Several key factors underpin this trend, including the positive economic outlook in India, attractive investment opportunities and continuing reforms in the real estate sector,” says Mr Kushwaha.

“These elements combined create a compelling environment for NRIs as they seek to invest in luxury properties and holiday homes, both for personal enjoyment and as strategic investment choices.”

Square Yards' Mr Rastogi says that NRI buyers are driving up to 30 per cent of its revenue.

“There has been an exponential rise in real estate demand in India from NRIs living in the UAE due to higher purchasing power and increased transparency in the real estate sector,” he says. “Homes across premium and luxury categories in the three-bedroom and above configurations are witnessing most demand.”

However, while India's property sector is enjoying an upwards cycle, the industry continues to face its fair share of challenges, too.

One of them is escalating land costs, developers and experts say. Other expenses are rising too, feeding into higher home prices.

“The cost of raw materials exerts significant pressure on our production expenses,” says Jay Shah, founder of Kaizen AI, which optimises construction using artificial intelligence solutions.

“Recently, the prices of key construction materials, especially cement and steel, have witnessed substantial spikes, further squeezing our margins. Funding – another critical aspect – remains a significant obstacle.”

The scarcity of skilled blue-collar labour has also been “a persistent challenge in the real estate sector”, Mr Shah says, “hampering our productivity and leading to project delays”.

Prices are not necessarily reflecting the rise in inflation, he says.



People burn crackers during Diwali, the festival of light, in Bengaluru. Concorde says it has witnessed a 40 per cent growth in sales year-on-year. EPA

“It can be seen as a challenge now and going forward – this will lead to an increased cost for developers which means it will lead to an increased cost for buyers,” says Mr Shah.

Concorde Group's Mr Nesara says that such issues are major concerns.

“Rising property costs and growing concerns over affordability have introduced complexities in the real estate market,” he says. “Developers are faced with formidable challenges, including soaring construction costs, escalating land prices, and rising property taxes.”

Sakshee Katiyal, chief executive of developer Home & Soul, says she is keeping a close eye on market dynamics and there are risks that could negatively impact prices.

“Market oversupply, seen in some regions of India, can exert downward pressure on prices and impact profitability,” she says.

While India's property sector has come to be better regulated in recent years, boosting consumer confidence in the market enormously, this is an area that still needs some work, experts say.

“Developers often grapple with complex and inconsistent regulations at the local, state and national levels,” says Mr Rastogi of Square Yards.

“The Real Estate Regulation and Development Act (Rera) was introduced to bring transparency and accountability to the sector, but its implementation has been uneven across states.”

Despite these issues, industry experts remain optimistic that the sector's growth is only set to continue, in the foreseeable future at least, with investing environment largely being favourable.

“Given the steady economic outlook and the improbability of further [interest] rate increases, we do not believe that there are significant impediments to demand today,” Knight Frank said in its report.

Year to date sales till the July to September quarter 2023 point to higher annual sales compared to the record levels seen in 2022, and the increasing volume of enquiries or pre- bookings as we head into the festive season bode well for the market, it said.