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MARKET TRENDS IN REAL ESTATE & ITS EFFECT ON VALUATION.

India’s Real Estate Market in the Financial Year 2021-2022 was a year of Recovery for investors in India. This momentum of the real estate market will continue throughout 2022.

There are certain projections which indicate that the sales momentum will increase in 2022 because the “Work from Home” culture is gaining popularity, the demand for a second home will still re-evaluate the roof within the foreseeable future. This is often one among the main factor leading to a hike to the acquisition of latest Residential Properties within the current market scenario. Home sales are definitely on the upward scale.

This adversely affected huge commercial spaces which were taken on rent by IT companies. Due to the “Work from Home” culture, companies in order to save money, and cut costs, cancelled the rent agreements and vacated the premises, to which the demand for such huge commercial spaces fell.

Following COVID – 19, the concept of property ownership has gained much attraction. This has helped form, positive consumer sentiment towards the residential Real Estate, the government and the banking sector support has got things started. As a result of the combination of these two factors, demand and supply metrices has improved in the last 4 months of 2021.

The increase in the cost of raw materials in building construction has resulted in inflation in the market, resulting in a hike of overall market. The increase in the rate of Cement, Steel, petrol resulted in a hike in the cost of labour hence a hike in the cost of construction and hence a hike in the overall rates of properties. The biggest effect of this is the increase in the interest rates for money. This is biggest effect on the market post COVID.

The builders who do construction on contract basis are asking for price escalation due to the rising process, and especially those properties which are tenable in nature.

Taking all these factors into account, still I would say that the market scenario definitely is a “Buyer’s Market” as the forth coming year will be a boom to the real estate in India, especially the residential market.

Major Initiatives are taken by the government of India with the hope of incentivizing land purchases. The announcements made within the Union Budget of 2022-23 will help in creating a positive and a thriving atmosphere within the Real Estate Sector. The government within the budget announced the completion of 80 Lakh homes under Pradhan Mantri Awaz Yojna (PMAY), and allocated ₹48,000 Crore under PMAY for Urban and Rural Developments in FY 2022-23. The government continues to prioritize affordable housing segment alongside ways to strengthen existing financing systems to supply liquidity to finish the unfinished projects.

Affordability in Real Estate Investment depends on 3 major Factors

1. House Price
2. Income Levels

3. Home Loan Rates

Home prices have remained almost to an equivalent level for the past 3 years, but now are on an increasing graph which has helped improve housing affordability. Considering an Annualised increment of 7 – 9%, affordability has gone up by the said percentage. As a result, the ratio between house price and annual income has hit a low of 3.20 times.

More than 90 % of the home buyers use house loans for their purchase transactions. The decline in Interest rates help them take bigger loans, which increases their affordability to a huge extent. Interest Rates on Home Loans has gone down to as low as 6.75%.

There was one more factor which had increased the transactions in the market, as the Maharashtra Government had given this incentive ‘The Cutting Down of Stamp Duty Rates’ from 7% to 3%. This again gave a boost to affordability in the market, and there was a saving of almost 4% from Oct’20 to March’21. Many home buyers and investors took huge advantage of this opportunity of saving 4% on our Real Estate Transactions, and the Real Estate market witnessed a huge investment in this phase.

Presently, from 1.04.2022, the stamp duty that is going on in the market is 7% (6% previous + 1% of metro ceased). Hence purchase of property becomes more expensive as properties are getting valued at higher rates appreciating the rates and development in the city due to Metro.

The Rate of Interest for home loan today is 6.75% and for Loan against property is 8% comparing it to the Rate of interest 3 years ago, where home loan was being given at 8% and Loan against property being given at 10.50%. This factor has played a major role in increasing the affordability of Investment in Real Estate Today.

Commercial properties having direct access from main road will fetch higher Market Value. However, some infrastructure developments like flyovers, although being a boom to the traffic congestion in the locality, the commercial properties adjoining to such development may lose its commercial potential due to no direct access. Even tough being at a prime location won’t get them the desired Market Value.

CONCLUSIONS

Change in the Unified Development Control Rules (UDCR Rules) and Development of Metro Network in some cities have a positive impact on the Valuation of Properties.

The change in interest rates for loans & mortgage, and the changing pattern of rents adversely affects the trends in the Real Estate for Residential as well as Commercial Properties.

The hike in the Real Estate Industry leads to a hike in the overall market, which increases the global inflation.

The Market Trends on going in the market along with the changes in Demand and Supply Determines the Valuation of Properties.