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## **How Repo Rate Movements Influence Real Estate Valuation in India: A Deep Dive**

In the intricate world of finance and real estate, few factors carry as much weight as the repo rate. Often discussed in economic circles and monetary policy reviews, the repo rate may seem like a distant concept to the average homebuyer or real estate investor. However, it holds significant sway over property values, demand patterns, investor sentiment, and the cost of capital in the real estate sector.

Understanding the repo rate's role is crucial not just for economists and bankers, but also for developers, valuers, and property investors. In this article, we explore how changes in the repo rate impact real estate valuation in India across residential and commercial segments and what it means for the future of the property market.

### **Understanding the Repo Rate and Its Role**

The repo rate is the rate at which a country's central bank, in India, the Reserve Bank of India (RBI), lends money to commercial banks. It is a key tool of monetary policy, used to control inflation, stabilize the currency, and manage liquidity in the economy.

As of April 9, 2025, the RBI reduced the repo rate by 25 basis points, bringing it down to 6.00% from 6.25%. This marks the second consecutive rate cut this year, following a similar reduction in February. The central bank also shifted its monetary policy stance from neutral to accommodative, signaling a focus on supporting economic growth amid global trade uncertainties.



## **Impact on Residential Real Estate Valuation**

### **1. Lower Repo Rates Enhance Affordability and Demand**

A reduction in the repo rate typically leads to lower interest rates on home loans, as banks pass on the benefits to consumers. This results in decreased Equated Monthly Installments (EMIs), making homeownership more affordable. The increased affordability can stimulate demand in the housing market, potentially leading to an appreciation in property values.

For instance, with the recent rate cuts totaling 50 basis points, a borrower with a 50-lakh home loan could see monthly EMI savings of approximately 1,960, amounting to total savings of around 4.7 lakh over a 20-year tenure.

### **2. Stimulus for Affordable Housing Segments**

The rate cuts are particularly beneficial for the affordable housing segment, where buyers are more sensitive to interest rate changes. Lower borrowing costs can encourage first-time homebuyers to enter the market, boosting demand and supporting valuations in this segment.

## **Impact on Commercial Real Estate Valuation**

### **1. Influence on Capitalization Rates and Investment Yields**

In commercial real estate, property valuations are often determined using the Income Capitalization Approach, which involves applying a capitalization rate (cap rate) to the Net Operating Income (NOI) of a property. Lower interest rates can lead to a decrease in cap rates, thereby increasing property valuations, assuming NOI remains constant.

### **2. Encouragement for Business Expansion and Leasing Activity**

Reduced borrowing costs can encourage businesses to expand operations, leading to increased demand for commercial spaces. This uptick in leasing activity can positively impact occupancy rates and rental incomes, further enhancing property valuations in the commercial sector.

## **Developer Perspective: Cost of Capital and Project Viability**

For developers, the cost of capital is a critical factor in project planning and execution. Lower repo rates reduce the interest burden on construction loans, improving project viability and profitability. This financial relief can enable developers to undertake new projects and expedite the completion of ongoing ones, contributing to a more robust supply pipeline in the real estate market.

## **Investor Sentiment and Market Dynamics**

Investor sentiment in the real estate sector is closely tied to interest rate movements. Lower repo rates can make real estate investments more attractive compared to fixed-income securities,



potentially leading to increased capital inflows into the property market. This heightened investor interest can drive up property prices and valuations, especially in high-demand areas

### **Conclusion: Valuation in a Repo-Rate Sensitive Market**

The repo rate, though a macroeconomic lever, has deep and far-reaching implications on real estate valuation in India. From residential demand and price trends to commercial cap rates and investor confidence, it influences nearly every variable in a valuer's model.

For real estate stakeholders, developers, buyers, institutional investors, and valuers it is essential to stay attuned to monetary policy developments. Understanding the repo rate's influence on capital costs, affordability, and return expectations can lead to more accurate, dynamic, and forward-looking valuations.

In an era of economic uncertainty and frequent policy shifts, valuation professionals must blend economic insight with market data to deliver relevant and reliable assessments. After all, real estate valuation is not just about what a property is worth today, but what it might be worth tomorrow.

