

Swachh Real Estate! Home prices to dive, but buyers to be in dilemma amid scarcity of white money

by [Vanita Akhaury](#) Nov 11, 2016

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As cash disappeared, sales halted, transactions got cancelled and a lot else happenedleaving people aghast.

In the real estate business, where only 30 percent payment is done through cheque and the rest through cash, the PM's magic move to juggle away the cash has left the builders and brokers in a tighter situation than ever, and at the same time hitting the sector hard which is already in a slowdown position. Now, the move has put it in a halt mode.



Reuters

The action by our PM Narendra Modi to demonetise high value currency denomination of Rs 500 and Rs 1,000 from the economic system has ticked off a really terrible time for builders and brokers particularly and the sector with an immediate effect. Brokers saw money slipping out of their hands as cancellations occurred due to the disappearance of cash component and unavailability of white money with people even when the ratio stood at 50:50.

Yet, these sufferers are hailing Modi's move even when the real estate transactions have been nil in the past two-three days and the fact that it may take up to two years to come to terms with the repercussion of this act. The real estate sector that was fluffed up with the black cash component stands deflated. The Nifty Realty index fell by almost 12 percent on the day the money curb began, purely based on sentiment.

Despite the negative impact that builders are likely to feel in the short and medium term, they realise the benefits are likely to accrue in the long term in the form of reduced land prices, building material procurement costs, and other construction related costs.

From buyers' perspective, hopefully, developers' scrunched up situation may force them to do desperate selling. So, buyers should feel elated as brokers estimate that real estate prices will nosedive by no less than

10 percent within a week and hopefully 20 percent within a month's time. Home buyers will now be able to evaluate more realistic pricing of property, says Manju Yagnik Vice Chairperson - Nahar Group.

Isn't this what the government was aiming at? The developers were adamant not to reduce prices. Now, everyone is watching the force tactics executed by the government. But the irony is most buyers, devoid of surplus cash component in the market, may not be able to take advantage of the situation and will find themselves in a fix. With no money in rotation, it will be damn difficult for them to make investments. Besides, even with new money coming in circulation they will hesitate to invest in property as it is the most difficult to liquidate in times of crisis.

I asked one builder how he will manage without the unaccounted cash flow and he had no answer to that. More chaos will be reflected in large scale, high ticket transactions with higher cash components. Dealings could run into difficulty, especially, in cases of refunds or for example, where part payments were done: For instance in a Rs 25 crore property deal, if Rs 5 crore advance payment had been made by the buyer and was planning to pay the rest in black, the situation would now become complicated for him. So, then how would the deal take place?

Moreover, those who are sitting on large stocks of unsold units, what will happen to them? "I shudder to think of developers who have a huge pile of inventory, they will be in deep trouble. Eventually, they will have to [reduce](#) prices," Dhruv Agarwala, Chief Executive Officer, PropTiger.com said.

Currently, the whole of India is reeling under the negative impact with Delhi and Gurgaon regions being badly affected. I see high-end renovation works too getting impacted in the short term as ready cash has vanished which people used to splurge on high-end materials, bathroom fixtures and other home accessories. Rentals are also likely to go down and with that people's investment too will take a hit. For new projects, builders will face a difficult time as in the absence of cash, buyers will disappear.

The immediate and lasting effect of the curbs imposed on old currency notes will be seen on small developers in the residential resale or secondary market, who were transacting through cash component. Sachin Sandhir, Global Managing Director - Emerging Business, RICS, confirms: "Traditionally, the preponderance of 'black' or for unaccounted money in real estate - largely by way of cash transactions - is seen in secondary market transactions and supply chains related to primary markets viz. land, material, labour etc."

Land acquisition quite often involved a significant portion of black money. "Those carrying out direct land deals will undoubtedly suffer - especially when it comes to agricultural land transactions, which tend to involve significant cash involvement," points out Anuj Puri, Chairman & Country Head, JLL India.

"It is expected that land prices would fall gradually which would thereby bring down unit prices. It will ultimately benefit the end user and expectantly improve sales velocity and at the same time address the affordability issue the sector has been facing," states Ajay Jain, Executive Director - Investment Banking & Head Real Estate Group.

In the short term, liquidity crunch faced by real estate and construction sector could lead to adverse situations. "The liquidity stress is likely to result in delays in construction in the short to medium term," says Anshuman Magazine, Chairman, India and South East Asia, CBRE.

For big developers who were dealing through bank transactions mainly, more opportunities will arise, as smaller ones will be wiped out from the real estate field. This could also lead the sector towards a corporate makeover. But, more importantly, the affordability factor would become a reality and 'Housing for All' goal would be achieved as cheaper land will eventually translate into cheaper homes. And in the long term, this move will make the industry more reliable and engaging for foreign investors feels Navin Makhija, MD, The Wadhwa Group.

As Neha Hiranandani, Director, House of Hiranandani puts it: "This is a bold and progressive move by the government and in our view will be far more effective than RERA and other statutory impositions placed on the sector in weeding out corruption. Layers upon layers of statute breed inefficiency and give way to corrupt practices. This is the move we have been waiting for."

This cleansing act will wipe out all the inconsistencies and unfair trade practices leading to a Swachh Real Estate, yes! Hats off to our PM for making everyone tighten their cash belts!