RBI keeps repo rate unchanged, realty sector wants more

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The first bimonthly RBI policy** (http://www.99acres.com/articles/rbi-maintains-status-quo-buyers-await-home-loan-ratecut.html)**announcement of 2017-18 has kept the repo rate unchanged at 6.25 percent. While the decision did not take the real estate sector by surprise, stakeholders are a little disappointed with the apex bank maintaining status quo.

The Reserve Bank of India (RBI) refrained from making any changes in the repo rates in the latest monetary policy review, the first of the new financial year. Alluding to the risks to inflation from monsoon and the upcoming Goods and Services Tax (GST), the apex bank held on to 6.25 percent as repo rate. This is the third time in a row when RBI has taken up a neutral stance in its monetary policy review.

The status quo has evinced mixed responses from the real estate sector (http://www.99acres.com/articles/rbi-governor-calls-to-cut-home-prices-developers-wary.html). Industry experts assert that after an encouraging Budget session, a further reduction in repo rates in the new fiscal year's first policy announcement could have significantly impacted the industry and facilitated growth. Sachin Sandhir, Global Managing Director - Emerging Business, RICS, comments, "While we did not expect a rate cut, it is still a little disappointing because a cut would have helped the real estate sector."

Other major highlights in the policy announcement included the reverse repo rate being hiked by 25 basis points (bps) to six percent and the decision to allow banks to invest in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (INVITs) within the 20 percent umbrella limit. Surendra Hiranandani, Chairman and Managing Director (CMD), House of Hiranandani, commented that the decision to hike reverse repo rate will control the liquidity surplus in the system. The gap between repo rate and reverse repo rate has now been reduced to 25 bps which exhibits the central bank's objective of aligning market rate with the policy rate.

Meanwhile, permitting banks to invest in REITs and InvITs will provide the much-needed boost to this segment. Consequently, the cost of capital for developers in the commercial segment could come down in the future owing to better liquidity.

Here is what other industry experts have to say about the announcements:

The status quo in repo rate will be a dampener for real estate. Input costs are rising and margins are shrinking for developers, hitting affordability for end users. Unless borrowing costs come down, there will a challenge for prospective buyers to make the investment.

Pratik K Mehta, Managing Director, Unishire

After demonetisation, India's banking system has substantial low-cost funds which will further impact the lending rates in both retail and corporate lending. Every rupee reduction in loan EMI can propel a purchase decision forward. Lower interest rates would have had a positive impact on the sector from the perspective of middle-class end users and overall sentiments of the market.

Rattan Hawelia, Founder & Chairman, Hawelia Group

Keeping the repo rate unchanged was an expected move as RBI had reduced the repo rate by 0.25 percent to 6.25 percent in October to signal lower interest rates in the economy. The banks, however, have not been generous enough to pass on the entire benefit of this reduction to the consumers. Since the banks are now flushed with cash and do not have to worry about reviving their bottom lines, they should now be passing the benefits of the previous rate cuts to the end consumers. It will be indeed the single biggest factor in kick starting the economic activity in the country.

Amit Modi, Director, ABA Corp, and Vice President, CREDAI - Western Uttar Pradesh

RBI has, once again, shown uniformity by keeping the lending rate unchanged in its first bi-monthly policy of 2017-18. We had expected some reform in the policy. Nonetheless, we support this decision and will adopt a wait and watch approach for now. We hope the RBI takes measures to cut interest rates in the near future to complement the initiatives taken by the government to ensure stabilisation of the real estate market.

Mr Navin Makhija, Managing Director, The Wadhwa Group

After the Maharashtra government hiked the ready reckoner rates by close to four percent last week, a rate cut at this stage would have helped in lowering the home loan interest rates further. This could have made home buying a reality for most. Since demonetisation, banks were flooded with excess liquidity due to a huge surge in deposits by cash holders. However, the hike in the reverse repo rate will help in squeezing the excess liquidity and bringing stability in property prices.

Ashwin Sheth, CMD, Sheth Corp Ltd

With progressive remonetisation happening in the economy, GST implementation, increase in GDP, and rate cuts by banks, real estate sector is gaining positive sentiments. Since the current and future market scenario appears promising for the end user in the coming months, such financial decisions will definitely help the buyer take a decision.

Sahil Kapoor, Executive Director, RE/MAX India

RBI seems quite focused on controlling the inflation in country but lowering the repo rate could have been a better step for residential sales after assigning industry status to the affordable housing segment. This is an indication for banks to bring down their interest rate based on the earlier repo rate cuts.

Ashudeep Batra, Executive Director, Exotica Housing

The realty sector was expecting an additional rate cut at this stage which would have helped in improving market sentiments. However, this might not impact homebuyers much as property prices are under control and banks have already reduced their interest rates up to 8.35 percent. This will not only help developers initiate more projects at favourable capital but also create wider offerings benefitting home buyers.

Pawan Jasuja, Director, FindMyProperty

The sector was looking forward to RBI reducing the repo rate by at least 25 basis points which could have been a big boost for homebuyers. The government's decision to give industry status to affordable housing has offered major relief to the sector and a reduction in interest rates at the start of the current fiscal would have been the icing on the cake. While RBI has maintained the status quo, we expect a reduction in the next quarter.

Suresh Garg, CMD, Nirala World, and Secretary, CREDAI - Western Uttar Pradesh

It is great to see that RBI has been so persuasive towards reduced lending rates in the market, especially from the end of financial institutions. Increased reverse repo rate would mean RBI withdrawing money from the market at a higher rate, hence, filling the hands of the banks further. However, financial institutions need to convert these indirect benefits into something substantial for the end users and promote healthy business environment in the market.

Manoj Gaur, President, CREDAI – NCR, and Managing Director, Gaursons India Ltd

A recalibrated marginal standing facility (MSF) standing reduced at 6.5 percent would mean that the overnight borrowing of banks from RBI would come at a lower rate. However, some direct rate cuts could have been also beneficial in the short term for the realty sector. With the recent data released by RBI stating that housing price index (HPI) has picked up in the last calendar year, direct rate cuts would have allowed the realty sector to ride on improved sentiments from all corners of the economy.

Gaurav Gupta, General Secretary, CREDAI – RNE

In case of a low interest rate environment surrounding the economy and cash available in abundance, the risk of growing inflation exists. Hence, RBI has decided not to reduce rates until it has been fully convinced about inflation control. Inflation, which had been on a rise for the fifth consecutive month till February but has taken a downward trend in March, would be kept under strict vigil until the next policy review, allowing RBI the necessary cushion to work further on the key rates. Till then, financial institutions should devise ways to offer indirect benefits to borrowers.

Dhiraj Jain, Director, Mahagun Group

Global growth indicators showing signs of stronger activity in most of the advanced economies and other factors pointing to a modest improvement in the macroeconomic outlook of Indian might have prompted the apex bank to adopt a cautious approach towards any major changes in the key rates. However, it was very heartening to see that the RBI has been very accommodative towards reduced lending rates in the market and, hence, has passed on benefits indirectly to the government allowing them the necessary room to work upon.

Vikas Bhasin, Managing Director, Saya Group

This is not a surprising move by the RBI as everyone was expecting a stagnant approach towards the key rates. The market has been gaining stability, and post the union budget, further ease could have been thought off on the cards. Even though the RBI has not provided any rate cut this time, fresh home loan borrowers should not worry much as they may still witness lowered EMIs. Amidst intensifying competition among the lenders, banks might be forced to start cutting down the interest rates themselves.

Rajesh Goyal, Vice President, CREDAI - Western Uttar Pradesh, and Managing Director, RG Group

The hiked reverse repo rate is a positive move for both banks and real estate developers as it encourages the banks to invest in REITs. We are supportive of the status quo announcement on RR, and hope for a stable real estate market.

Sanjay Jain, Group Managing Director, Siddha Group

RBI's announcement to keep the rates unchanged did not meet the expectations of current market scenario. Though the unchanged rates were along the expected lines, we look forward to reduction in rates in the future. Although the government is taking corrective measures for economic growth and stability, there is a need to adopt a balanced approach considering the growth of key sectors like real estate. Monetary liberty is the need of the hour to gain back the trust of home buyers and investors. We are hopeful that next policy brings some good news for the sector.

Prashant Tiwari, Chairman, Prateek Group

The realty sector is already under immense pressure and most of the projects in Noida and Greater Noida are nearing completion. Therefore, in such a scenario, rate cut was the need of the hour to provide the much needed boost to the sector and facilitate growth.

Deepak Kapoor, President, CREDAI - Western Uttar Pradesh

RBI has kept the rates unchanged and appears to have adopted a wait and watch policy with respect to the effects of demonetisation as well as the 7th pay commission as both these factors together might kick off inflation in first quarter of 2017. However, we were hoping that the rates will be brought down after they were kept unchanged last time. It has been long due and RBI should soon come with proper rate cuts to bring a more positive trend in the real estate sector.

Saurabh Jindal, Joint Managing Director, SVP Group

Maintaining status quo is a missed opportunity for real estate sector as reduction in rates might have improved the market scenario and triggered the demand and sales process. Still, in the longer run, we foresee enough room for rate cuts which would spur growth in the realty market. Real estate sector being a major contributor to India's GDP needs enough backing from RBI to give out positive signals considering the present property rates and stagnant market conditions.

Akshay Taneja, MD, TDI Infratech Ltd