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## RBI Dashes Hopes Of Real Estate Sector

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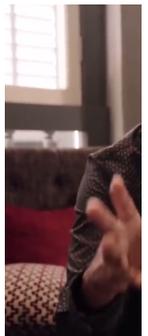


09 December, 2016  
by Clifford Alvares

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India's real estate sector was expecting a boost in the form of a rate cut, but the Reserve Bank of India was in no mood to oblige. The RBI left its major policy rates unchanged dashing the hopes of the real estate sector that was looking forward to a rate cut to spur demand as well as cushion the impact of demonetization.

The sector is bracing for a slower demand and a dip prices. Much of the real estate sector, particularly rural land and urban housing, has been using cash for property dealings.

Now as the old Rs 500 and Rs 1000 notes has been stripped of its legal tender status, transactions in the real estate sector are expected to trickle down impacting prices.



Experts see a 30 percent fall in real estate prices in the least, particularly in rural and agricultural land. A rate cut at this juncture was expected to keep demand up, and probably even help reduce the aftershocks of demonetization.

Surendra Hiranandani, chairman and managing director, House of Hiranandani said, "Considering the current economic situation, it is disappointing that the RBI has chosen to maintain status quo on policy rates. A 25 bps was widely factored in as it would have provided some cushion from the impact of demonetization. While it is anticipated that the Fed might increase rates from December, so reducing rates here could have an inflationary effect in the medium term, we have to remember that post demonetization, the downside risks to growth has increased significantly."

However, the withdrawal of incremental cash reserve ratio is being seen as a move that will see an easing of interest rates and provide liquidity in the system.

Anuj Puri, chairman and country head, JLL India said: "For the real estate sector, which is currently reeling under pressure from the recently-announced demonetization of high-value currency notes, a rate cut could have definitely allayed fears of a near-term loss of momentum."

Experts also point out that the secondary sectors such as retail, hotels, and restaurants that also see large amount of cash transactions may slow to an extent it could further impact demand for commercial space.

Besides, consumption slowdown may be affected due to a lower wealth effect as sentiment weakens. Says Puri: "Overall consumption could witness an impact through the wealth effect, the possibility of which is uncertain at the moment."

At present, interest on home loans are ranging around the 9.5 percent mark. Middle-income groups are a large consumer of residential real estate and a rate cut could have bolstered demand for residential houses.

Besides banks have been slow to pass on the benefits of lower interest rates to consumers. Cumulatively, the RBI has cut rates by around 175 basis points since January 2015.

But the real estate industry continues to remain optimistic that interest rates could fall in the coming months. Says Puri: "What could offer the real estate community some respite is if the policy committee would continue to remain accommodative and act positively on any opportunity available for rate cuts as soon as they arise going forward."

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