Real estate sector's view on RBI monetary policy

Editor | April 7, 2017 @ 09:33 AM

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The Reserve Bank of India kept its repo rate at 6.25 per cent for a third consecutive policy meeting on Thursday as it continues to guard against any potential flare-up in inflation and an uncertain global economic environment.

All 60 economists polled by Reuters had predicted the RBI's six-member monetary policy committee (MPC) would keep the repo rate at the same level since October.

RBI offers multiple indiscernible pluses

The financial year 2016 – 17 was a true example of any developing economy which was marked with both ups and downs for the real estate sector. Where one could see the peak of the sector in the past couple of years during the festive season, suddenly after it, demonetisation crippled the sector to it's bottom most for the upcoming two months.

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But with things like RERA, Smart Cities Mission and Housing for All in the pipeline, the sector is expected to perform better than ever. As one of the highest contributors to the country's GDP and an end user to over 30 allied industries, very high hopes rest on this sector to perform well in order for the economy to revive. On top of it all, the Reserve Bank would always play a key role in deciding the fate of this sector through it's bi – monthly monetary policy reviews.

With today's decision in the monetary policy review, the Repo rate remains unchanged at 6.25 percent. However, the corridor under the LAF has been narrowed down to 25 basis points which makes the Reverse Repo rate stand at 6.0 percent. This adjustment under the LAF also means that the Marginal Standing Facility (MSF) also stands reduced at 6.5 percent basis the recalibration of MSF difference to 50 basis points above the Reverse Repo rate.

Cash Reserve Ration (CRR) at 4 percent and Statutory Liquidity Ratio (SLR) at 20.5 percent remain unchanged. There are no direct benefits attached for the financial institutions but indirectly they gain a lot with the increase in Reverse Repo and reduction in the MSF, allowing them to lend to RBI at higher rates and enabling overnight borrowing at a lower rate.

Industry Reacts:

Manoj Gaur, President CREDAI-NCR & MD, Gaursons India Ltd.

It is great to see that the Reserve Bank has been so persuasive towards reduced lending rates in the market, specially 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, it's on the part of the financial institutions to convert these indirect benefits into something substantial for the end users and promote healthy business environment in the market.

Gaurav Gupta, General Secretary, CREDAI - RNE

A recalibrated MSF standing reduced at 6.5 percent would mean that the overnight borrowing of banks from RBI would come at a lower rate giving a freer hand to banks at lending. However, some direct rate cuts could have been also beneficial in the short term for the realty sector because with the recent data release by RBI which states that HPI has picked up in the last calendar year would have allowed the realty sector to ride on improved sentiments from all corners of the economy.

Vikas Bhasin, MD, Saya Group

Also with global growth indicators showing signs of stronger activity in most of the Advanced Economies and further indicators pointing to a modest improvement in the macroeconomic outlook of the country might have prompted the apex bank to keep 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.

Dhiraj Jain, Director, Mahagun Group

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

Rajesh Goyal, Vice President CREDAI-Western U.P. & MD, RG Group

This is not a surprise 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 because amidst intensifying competition among the lenders, the banks might be forced to start cutting down the interest rates themselves.

R Sivakumar, Head-Fixed Income, Axis Mutual Fund

"RBI left rates unchanged as the markets had expected."

"As the RBI is on hold for the moment, we expect short term bonds to outperform long bonds. Short bonds are less sensitive to the policy outlook as well as to global risks."

Chakri Lokapriya, MD & CIO, Teg Amc

"Reverse Repo increased to 6 percent is incrementally positive for banks."

"Importantly, RBI has announced that banks can start to invest in REITs, which is a positive measure for both banks and real estate developers. For banks it offers an additional important assclass for investing and brings liquidity. For commercial real estate companies, it brings in liquidity, and frees up capital which lowers their cost of capital."

D K Srivastava, Chief Policy Advisor, Ernst And Young

"This is along expected lines. Repo rate has not been changed because there is an upward risk to inflation that is being anticipated, while growth appears to be turning positive in RBI's view."

"They are basically focused in inflation."

"The main thing is that neutral stance is being maintained."

Tushar Arora, Senior Economist, HDFC Bank

Adjustment of the LAF corridor should help arrest the decline in bond yields and excess liquidity problem to a certain degree." The absence of big bang liquidity measures means the RBI still wants to wait and gauge the extent of durable liquidity - that finally remains in the system. Going by the roadmap on liquidity management given by the RBI, I believe that more durable steps for liquidity management could be in the offing later on and may be before the next policy meeting.

Samrat Dasgupta, CEO, Esquire Capital Investment Advisors

It is clear that we are at the end of the rate-cutting cycle. The RBI expects an increasing inflation trajectory and they seem to be adequately preparing for an improving capex cycle and well as liquidity lowering measures in the US.

Anshuman Magazine, Chairman, India and South East Asia, CBRE

In line with the industry expectations, RBI maintained stability in repo rates, while raising the reverse repo rate by 25 basis points. The increase in the reverse repo rate was done with the aim of absorbing excess liquidity that has come into the banks after the recent demonetisation drive. However, a significant announcement during the monetary policy review was the decision to allow banks to invest in real estate investment trusts (REITs) and InvITs, which is a huge positive for the real estate sector. Overall, this will be another boost to REIT and InvIT's and the real estate and infrastructure sector in the country.

Sanjay Jain, Group Managing Director, Siddha Group

The Reserve Bank of India has taken a neutral stand by maintaining the repo rate at 6.25% in the first monetary policy of the financial year 2017-18. We hope the banks now reduce the interest rates that will ensure that the demand for housing does not weaken. The hike in the Reverse Repo Rate to 6% is a positive move for both the 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.

Navin Makhija, MD, The Wadhwa Group

The RBI has once again shown uniformity by maintaining status quo with the key lending rate remaining unchanged at 6.25% in its first bi-monthly policy of the fiscal year 2017-18. We 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.

Ashwin Sheth, CMD, Sheth Corp Ltd

The first bimonthly RBI Policy announcement of FY2017-18 by RBI Governor Mr. Urjit Patel and the third after demonetization of old currency, keeping the repo rate unchanged at 6.25% was an expected move but the real estate sector needs more, said, **Mr. Ashwin Sheth, CMD, Sheth Corp Ltd.** Although the rate was kept on hold citing risks to inflation from monsoon and GST, but a rate cut at this stage would have helped in lowering the home loan interest rates further after the Maharashtra Government hiking the ready reckoner rates by close to four per cent last week. This could have made home buying a reality for most buyers who have been eagerly waiting for the rates to cut down. 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 would help to squeeze the excess liquidity and will help bring stability in property prices", continued Mr. Sheth.

Deepak Kapoor, President, CREDAI Western UP

Rdstate sector was very much in need of a rate cut even if it was to be of 25-50 basis points. But, similar to last time, this policy review also did not brought any relief to the real estate sector as status quo was maintained. The realty sector is already under immense pressure and most of the projects in Noida & Greater Noida nearing completion and readying for possession soon. Therefore, in such a scenario, rate cut was the need of the hour to provide the much needed boost to the sector and to facilitating growth on the other hand.

Akshay Taneja, MD, TDI Infratech Ltd.

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 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.

Prashant Tiwari, Chairman, Prateek 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 for reduction in rates in future. Although 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".

Saurabh Jindal, Joint Managing Director, SVP Group

RBI has kept the rates unchanged and looks like it has adopted a wait and watch policy with respect to effects of demonetisation as well as the 7th pay commission as both these factors together might kick off inflatiom in first quarter of 2016. However, we were hoping that the rates will be brought down after they were kept unchanged last time as market sentiments needs to be revived. It has been long due and RBI should soon come with proper rate cuts to bring more positive trend in the real estate sector.

Anshul Jain, Managing Director India, Cushman & Wakefield

In a landmark announcement the RBI has allowed the retail banks to participate in REITs and InvITs. Currently, banks are allowed to invest in equity-linked mutual funds, venture capital funds (VCFs) and equities to the extent of 20% of their NOF. It is proposed to allow banks to invest in REITS and InvITs within this umbrella limit. This is a positive move by the RBI that will allow greater institutional participation in the real estate sector. Banks will now have route to investment into real estate, in turn helping the liquidity within the sector. As a key take away, RBI and SEBI have shown faith in real estate investment foreseeing positive and secured return in mid to long term on account of steady economic growth. This announcement can be viewed as a sign of maturity and a step towards institutionalization of real estate in India.

Rattan Hawella, Founder & Chairman, Hawella Group

After encouraging budget, a further reduction in repo rates in the first policy announcement of the new fiscal would have significantly impacted the industry and facilitating growth. After demonetization, banking system of the nation has substantial low cost funds which will further impact the lending rates in both retail and corporate lending. Every repo reduction in Loan EMI can propel a purchase decision forward. Home buying decision of the affordable category buyer who is more dependent on home loan rather than buying from their own sources would surely have huge positive impact by notable reduction in lending rates. Lower interest rates definitely would have a boosting impact from the perspective of middle-class end-consumers and overall sentiments of the market.

Shishir Baijal, Chairman & Managing Director, Knight Frank India

The decision to keep the repo rate unchanged at 6.25% is on expected lines because of the liquidity scenario and inching up of inflation. However, deep down we wished that a rate cut could give the ideal fillip for growth in the residential sector riding on the lower interest rate regime, regulator on the anvil and overall better performance of the economy.

Surendra Hiranandani, Chairman & MD, House of Hiranandani

As widely expected, The Reserve Bank of India today kept the repo rate unchanged at 6.25% for the third time in a row. One of the highlights of today's policy was the decision to allow banks to invest in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (INVITs) within the 20% umbrella limit. It will allow banks to invest in an important asset class thereby providing much needed boost to this segment. Owing to better liquidity, the cost of capital for developers in the commercial segment will come down in the future. The decision to hike reverse repo rate by 25 bps to 6% will control the liquidity surplus in the system. The corridor between repo and reverse repo rate has been reduced to 25 bps indicating that the central bank wants to align market rate with the policy rate.

Amit Modi, Director, ABA Corp and Vice President CREDAI Western UP
It is an expected move taken by the RBI Governor to keep repo rate unchanged as the Reserve Bank of India hadreduced the repo rate by 0.25% to 6.25%. in October to signal lower interest rates in the economy. Hence RBI have done their part, the banks on the other hand have not been generous enough to pass on the entire benefit of this reduction to end consumers. Since now the banks are flushed with cash and don't 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 this stagnant phases. Hence we sincerely hope that both Finance Ministry as well as the RBI push all the banks to transfer the entire benefit to the end consumer for whose benefit it is meant, else these moves will severely stop short of benefiting the consumer.

Sachin Sandhir, Global Managing Director – Emerging Business, RICS
RBI's monetary policy is on expected lines. While we didn't expect a rate cut, it is still a little disappointing because a cut would have helped the real estate sector. Nevertheless, real estate sector has still gained with the Reserve Bank of India's announcement to allow banks to invest in Real Estate Investment Trusts (REITs) and infrastructure Investment Trusts (InvITs). India's REIT potential is quite large but it has not yet taken off. Bank's involvement will help the commercial real estate segment by bringing in much needed liquidity. It will set the momentum going for REITS.

Send us your reactiond to RBI monetary policy at editor@magicbricks.com.