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INDUSTRY WELCOMES REPO RATE CUT

The central bank's fourth rate cut, on the trot, since February 2019, could mean lowering of EMIs on housing loans. However, commercial banks must transmit the rate cut effectively to end consumers

The real estate fraternity has welcomed the fourth consecutive repo rate cut by the RBI which, on Wednesday, reduced the key policy rate by 35 bp, to 5.4%, in its latest monetary policy. Repo rate is the rate at which RBI lends to commercial banks.

The sector is sure to benefit, experts said. "This rate cut, the fourth consecutive cut since February 2019, is meant to boost consumer sentiments once commercial banks transmit the benefits to actual consumers," **Anuj Puri,** chairman of ANAROCK Property Consultants, said.

"With the fourth consecutive rate cut, we expect housing demand to rise marginally. We expect the rate cut to further lower interest rates on home loans and auto loans, as the monetary transmission of previous policy easing have been limited. It will also boost credit growth in the banking system," **Manoj Gaur,** MD of Gaurs Group and chairman of Affordable Housing Committee, Credai, said.

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FOCUS ON AFFORDABLE SEGMENT

The government has already announced a series of incentives for the affordable housing segment. Earlier this year, it announced rationalization of GST to 1%, lowering the effective price of affordable homes.

In line with the government's vision, experts have said that the RBI's focus is also on the growth of affordable housing segment.

"The Reserve Bank of India's decision to cut rate by 35 basis points is a positive decision. The decision to allow banks to lend to priority sectors, including housing sector, of up to Rs 20 lakh loans, through NBFC arms will kick-start credit flow, especially to the affordable housing sector. For consumers to feel the benefit of lower rates, the RBI will must now step in for accelerating the transmission of the rate cut," **Ravindra Sudhalkar,** ED and CEO of Reliance Home Finance, said.

"If banks are to pass on this reduction in the prime lending rate to consumers, budget housing demand may also improve further," **Niranjan Hiranandani,** president of Naredco, said.

BANKS SIGNAL EFFECTIVE TRANSMISSION

Commercial banks have already started reducing their home loan rates soon after the RBI policy announcement.

For example, the country's largest bank, the State Bank of India (SBI), has announced cut in lending rates the same day. It announced a reduction in its MCLR (Marginal Cost of fund based Lending Rate) by 15 basis points across all tenures. Recently, HDFC Bank also reduced its lending rates by 10 bp, for both new and existing borrowers. The bank has also cut its MCLR by 10 bp across tenures. Over the past few months, several other banks and NBFCs have cut interest rates on their loans.

This would mean that the equated monthly instalments (EMIs) will come down, though marginally. Others banks are likely to follow.

"The rate cut has a direct bearing on the real estate sector considering that residential sales rely to a large extent on the availability of credit in the form of home loans and buyer sentiment. The improved market sentiments due to the tax deduction schemes, modified tenancy laws, focus on the implementation of PMAY, investment in infrastructure announced in the Union Budget 2019-20 coupled with interest rate deductions is likely to boost sales in the residential segment," **Ramesh Nair,** CEO and country head of JLL India, said.

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Industry welcomes repo rate cut

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SOME CONCERNS

The real estate fraternity is primarily worried about key markets in the country. Other big concern is the presence of a largely unsold mid-income housing inventory.

The RBI's rate cut will be insufficient for mid-income housing, experts said.

"A rate cut of 35 bp is insufficient to significantly improve buyer sentiment in the mid-income segment, which has a staggering unsold inventory of 2.17 lakh units in the Top 7 cities. On the other hand, demand for affordable housing, which accounted for 2.4 lakh unsold units in these cities, may see improvement as this highly budget-sensitive segment has the benefit of other incentives," **Anuj Puri** said.

"Of the 75 bp rate cuts thus far, only up to 35 bp have been seemingly transmitted to end users. With this backdrop, another similar rate revision is not expected to trickle down much. Further, after the RBI's announcement of a shift in policy stance, markets were already expecting a 25 bp cut from the August MPC, although the present cut is only moderately higher than expected.

"Thus, the RBI's 35 bp rate cut is only marginal, more so for the real estate sector," **Shishir Baijal,** CMD of Knight Frank India, said.

Developers have pinned their hope of a stronger revival in sales on the fact that banks follow the cue of the Central Bank.

"Once banks reduce the level of interest rates, it will eventually witness increase in demand for homes in the real estate sector," **Dhiraj Jain,** director of Mahagun Group, said.

The real estate sector has already registered a 22% Y-o-Y growth in sales in the first six months of 2019, compared to the corresponding period last year, a JLL research said.

Stable real estate prices combined with steadily rising incomes have further lifted homebuyers' sentiments in the last few quarters. However, the growth trajectory of the real estate sector ultimately depends on the successive transmission of rate cuts to end consumers.

— Ankit Sharma

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