

Indian realty continues to reel after the big jolt

The Economic Times, Mumbai, Wednesday, March 31, 2010

Real estate as an asset class has always been in demand across geographic boundaries. In the past few years, realty companies across the world have seen the best and the worst of times, particularly in the past three years.

In 2007, when the market was at its peak, the BSE Realty index outperformed Sensex as well as its Asian counterpart, the S&P Asia Pacific Property index (SAPP). SAPP provides exposure to 40 leading, publicly traded companies in the Asian property and real estate markets covering countries like China, Japan, Hong Kong, Singapore and Thailand.

However, now in the recovery phase, it has not been able to match up to the upturn seen in both of them. From the meteoric rise of 2007 to the crash of 2008-09, the sector is still grappling to find some ground, at least in India.

Sensex, the benchmark index, is close to where it was three years ago. A comparison with the Asian counterparts shows that SAPP has recovered from its lows and is on its way to reaching its earlier highs, but the barometer of India's realty is nowhere close to its zenith.

The realty index will have to grow almost five times from its current level to touch its peak. This seems difficult in a scenario where controlling inflation is the key concern of the government.

The recent hike in repo and reverse rate could further have a dampening effect on the borrowing cost of companies, which are still under huge debt. And with realty prices hovering around the peaks of 2007-08, a demand slowdown may be lurking around the corner.

The abnormal pace at which BSE Realty went up in 2007 was without precedence. A booming economy, higher disposable incomes, more company listing and an overall feel-good factor led to the creation of a larger asset bubble.

As demand for real estate as an asset class rose, the number of companies going public also increased. Being the highest gainer of 2007, there was a continuous pressure to outperform peers in topline and profitability growth, at all cost.

When the slowdown set in, the irrational exuberance took the sector to the drains. With mortgage-led home buying being the prime reason for the global downturn, the sentiment towards real estate took a big hit.

Indian realty companies were the worst performers compared to their Asian counterparts. Now in times of resurgence, the stocks in the SAPP index are showing a greater growth pace than Indian realty stocks.