

Realty sector in Mumbai: High prices hit demand

The Economic Times, Mumbai, Monday, March 29, 2010

Realty sales in Mumbai Metropolitan Region (MMR) have fallen. The total area (m sq ft) sold in MMR in December 2009 as compared to September 2009 quarter, has come down.

Prices have risen or remained flat in some cases. This shows that homebuyers are holding on to their demand and exercising restraint. Demand for big-ticket houses has been the worst hit.

As per the data compiled by Liases Foras, a real estate research agency, flats costing Rs 1 crore to 2 crore have seen a sharp fall in demand which is contrary to what many developers in the region have been saying. Homes costing over Rs 2 crore are also witnessing the same trend. This is in contrast to cities like Bangalore, Hyderabad and NCR, where sales have risen, thus proving again that Mumbai property market defies rules applicable to other markets. The main reason for the same being that prices have fallen in the above-mentioned cities whereas Mumbai based developers have been increasing their prices.

MMR's business turnover index (BTI) registered a 32% decline in the last quarter of FY09. BTI is the measure of movement in the sector, which takes into consideration the price, and area of the total number of units sold across projects across regions. Nonetheless, what is noteworthy is that despite a 20% growth in sales in NCR, the overall increase in its BTI is very small. This is due to the fact that there has been a more than proportionate increase in sales of low-ticket units.

Mumbai developers have scarce land resources to build upon when compared to NCR builders, the reason why they make the most of what's available. The efficiency index in MMR has also come down, the highest decline seen in the Rs 1 crore to Rs 2 crore category. The market efficiency is the ratio between the average sale movement per building and the rate per sq ft. It suggests demand elasticity.

So, if the average sale per building is increasing with the increase in rate, the market is efficient. Conversely, reduced sales means the market has become relatively inefficient to that extent. Developers must realise that if they increase price irrationally, they will be left with unsold inventory and thus lead to the vicious cycle of debt trap as was the case in 2008.

They must realise that 'Customer continues to be the king', at least for the time being.