Liases Foras
Real Estate Rating & Research Pvt. Ltd.
INDEPENDENT NON-BROKERAGE REALTY RESEARCH COMPANY

THE IMPACT OF DEMONETISATION IN INDIA

EXECUTIVE SUMMARY

THE IMPACT OF DEMONETISATION IN INDIA: EXECUTIVE SUMMARY

Demonetisation has hit India hard. Opinion is divided across the length and breadth of the country. Some opine that it is for the greater good, while some say things could have been planned in a better way and that demonetisation is not going to solve any problem in the long run. Whatever the outcome, we cannot deny that this sweeping move by Prime Minister Narendra Modi will surely have a lasting impact on one sector in India and that is Real Estate.

Real estate as a sector has been one of the major dumping grounds for unaccounted money and counterfeit currency, also known as Black Money in common parlance. Whether it is procuring land parcels, obtaining clearances and approvals from Government authorities or even purchasing regular construction material, black money and corruption has flown through Indian realty seamlessly. As a common practice, even buyers had been paying a substantial black component while purchasing properties in the primary as well as secondary markets. Black money led to speculative practices which led to artificially inflated prices. An overheated real estate sector created a vicious cycle and brought inefficiencies in its wake.

In this report, we have analysed and quantified the impact of Demonetisation on the Indian residential real estate sector with a balanced and structured approach. With a move so powerful, the impact is bound to be far-reaching for the sector. **Luxury Market and Plotted Development are found to be affected the most in terms of transactions, while Mid and Affordable segment would be least impacted.** On the other hand, reduction in land cost and development cost would improve margins of the developers. This is likely lead to reduction in prices and bring about economic efficiency in the sector.

IMPACT OF DEMONETISATION ACROSS SEGMENTS

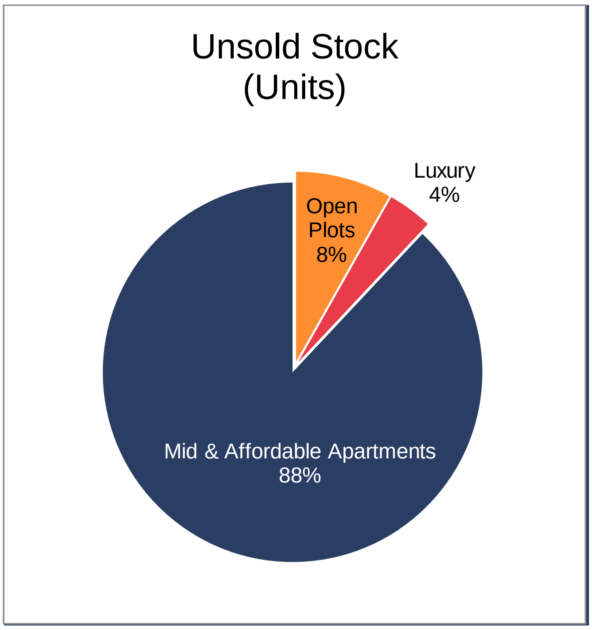
Coming back to the impact of demonetisation, our analysis shows that Luxury Market and Plotted Development would be affected the most. Mid and affordable segment will be least impacted. Luxury housing is going to take a big time hit as large transactions were happening in black. Developers catering to this segment are sure to face liquidity pressure. On the other hand, Land has always been one of the favourite assets to park black money. In the absence of black money, hoarders will not find it appealing to purchase land and demand will be dented. As a result, land owners are likely to be more willing to negotiate prices. We anticipate land prices to witness around 20%-25% price correction. Tier II and Tier III markets and perhaps some Tier I markets, where plotted development is rampant, are likely to be most affected by this.

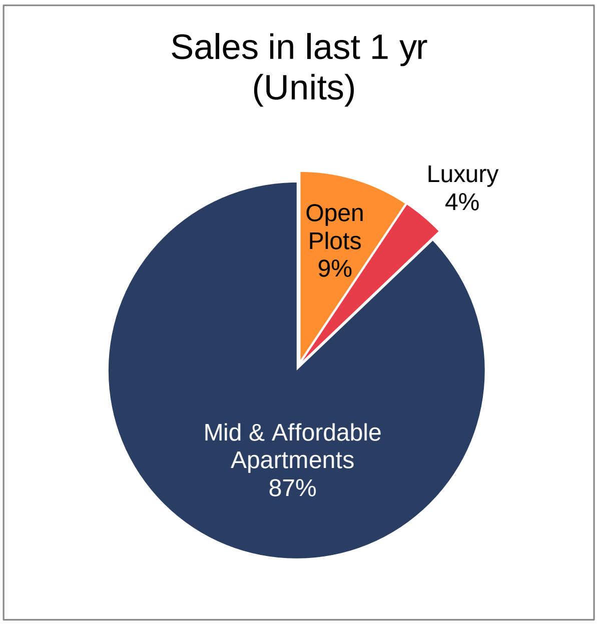
Luxury Market

The assumptions taken for the impact analysis are:

City	Luxury Mkt. Cost Bracket
MMR & NCR	Above Rs. 4 Crs
Other Tier I Cities	Above Rs. 2 Crs
Tier II Cities	Above Rs. 1 Cr
City	Luxury Mkt. Cost Bracket

Source: Liases Foras



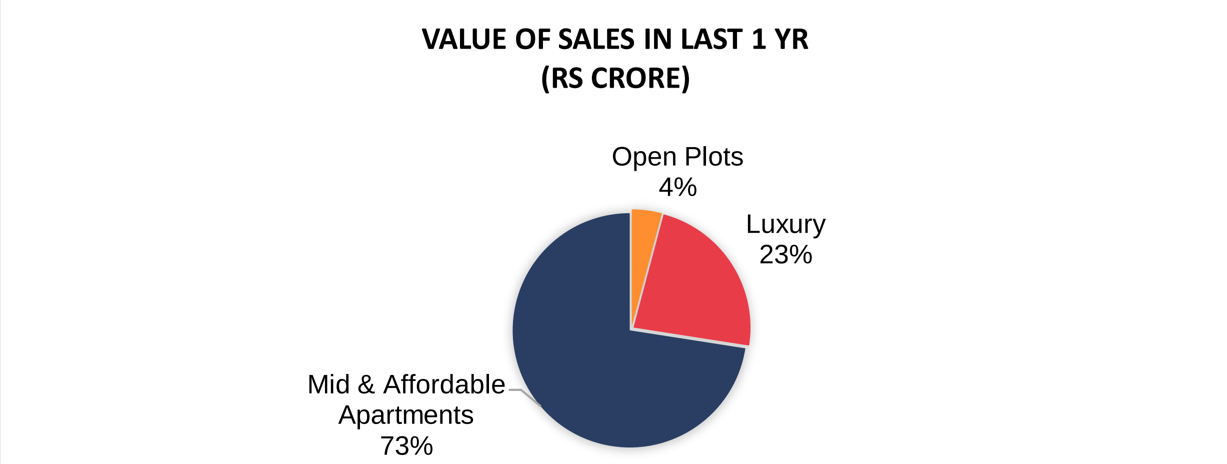


Source: Liases Foras

Total Unsold (units)	11,95,465
Open Plot	97,713 (8%)
Luxury	45,647 (4%)

Source: Liases Foras

Around 80-90% of the deals in luxury and plotted markets have 40-50% cash component the total cash in the system is estimated to be Rs. 30,103 Cr (21% of Annual Market).



Source: Liases Foras

Total Value of Sales (Rs. Cr)	2,31,926
Open Plot	9,628 (4%)
Luxury	54,058 (23%)

Source: Liases Foras

Luxury Market – MMR and NCR are the most affected markets (Rs. crores)

Impacted Market	Total Value of Business done	Value of Business done in Luxury Market	% contribution of Luxury market in business done
MMR	63,358	20,231	32%
NCR	39,502	7,525	19%
Bengaluru	39,699	7,208	18%
Hyderabad	11,420	2,930	26%
Chennai	15,202	2,876	19%
Pune	19,343	2,692	14%
Surat	4,831	2,408	50%
Other Cities	47,076	8,188	17%
Total	**240,433**	**54,058**	**22%**

Source: Liases Foras

For the luxury market, MMR and NCR are likely to be the most affected markets. In the tier I cities, Bengaluru and Pune have less than 20% value contribution to luxury sales. Amongst tier II cities, Surat will be highly affected as luxury sales form 50% of their business.

Secondary Market

We expect the secondary/ resale market to be seriously hit because many transactions in that segment happen in cash with sellers wanting to avoid long-term capital gains tax. Small-unorganised developers and other unreliable builders may be reduced to a miniscule percentage, as non-compliance has always been an issue there.

The housing market in India clocks in 8.5 lac units of sales every year. Out of this, 36% is dominated by the primary market, while 64% comes from secondary market and self-constructed houses.

It must be noted that 34% of the sales in tier I cities is from primary market, while this segment in tier II cities stands at 45%.

NCR leads the tier I cities in terms of secondary market contribution, while Pune has minimum exposure to the resale of self-constructed houses.

CITY	Primary Annual market	Secondary market & Self Construction*	Total Annual Market	Primary Market Contribution
Tier I Market	**232,474**	**442,320**	**674,794**	**34%**
MMR	46,696	97,120	143,816	32%
NCR	48,068	159,477	207,545	23%
Bengaluru	39,284	70,663	109,947	36%
Pune	36,024	28,946	64,970	55%
Chennai	21,319	29,685	51,004	42%
Hyderabad	11,486	15,943	27,429	42%
Ahmedabad	20,679	28,681	49,360	42%
Kolkata	8,918	11,805	20,723	43%
Tier II Cites	**74,889**	**106,857**	**165,249**	**45%**
All India	**307,363**	**549,177**	**856,540**	**36%**

*Source: Liases Foras   * *Based on registration and secondary research*

Impact on plotted market

Plotted Market – Bengaluru & Chennai are the most affected markets (Rs. crores)

Impacted Market	Total Value of Business done	Value of Business done in Plots	% contribution of Plots in business done
Bengaluru	39,699	4,560	11%
Chennai	15,202	1,150	8%
NCR	39,502	1,116	3%
Indore	2,707	775	29%
Chandigarh	2,793	397	14%
Lucknow	3,676	319	9%
Jaipur	4,769	233	5%
Other	132,083	1,077	1%

Source: Liases Foras

The plotted business segment in Bengaluru and Chennai will be most affected because the trend for the same is dominant in these two cities. Among the tier II cities, Indore and Chandigarh will be the worst impacted with a plot market contribution of 29% and 14% each.

IMPACT ON VALUE OF SALES DUE TO PRICE CORRECTION

Probable Price Correction	Scenario 1 - 10% (Optimistic)	Scenario 2 - 20% (Pessimistic)
Plotted Market - Primary	963	1,926
Luxury Market - Primary	5,406	10,812
Sub Total - Primary Market	6,369	12,737
% Reduction in Primary Market	3%	5%
Secondary Market	38,819	77,638
Total Reduction in Market	**45,188**	**90,375**
Total Market before Reduction	620,118	620,118
Market after Reduction	574,930	529,742
% Reduction in Total Market	**7%**	**15%**

Source: Liases Foras

We have conducted a sensitivity analysis and studied the impact of sales in the luxury and plotted market under price correction in 2 scenarios, such as 10% and 20%. It must be noted that luxury and plotted market experience inelastic demand. The reduction in prices do not result in higher transactions. Both these segments are investor-driven markets and price appreciation attracts buyers to these markets. Hence, we expect the market size for these two segments in the primary as well as secondary market to reduce in the **range of 7% to 22%.**

IMPACT ANALYSIS AT 20% PRICE REDUCTION

Value contraction across categories due to 20% price reduction (Scenario 2) (Rs. crores)

Cities	Plotted Market	Luxury Market	Secondary Market
NCR	223	1,505	27,111
MMR	1	4,046	25,251
Bengaluru	912	1,442	7,632
Chennai	230	575	3,028
Pune	5	538	3,126
Ahmedabad	47	241	1,778
Total	**1,418**	**8,348**	**67,926**

Source: Liases Foras

Leaving aside extremes, if we pick the scenario with a 20% price decline, the market size contraction will be felt maximum in NCR, MMR and Bengaluru. 17% of the business in NCR is contributed by plotted, luxury and resale markets. The same share in MMR and Bengaluru stand at 15% and 14%, respectively.

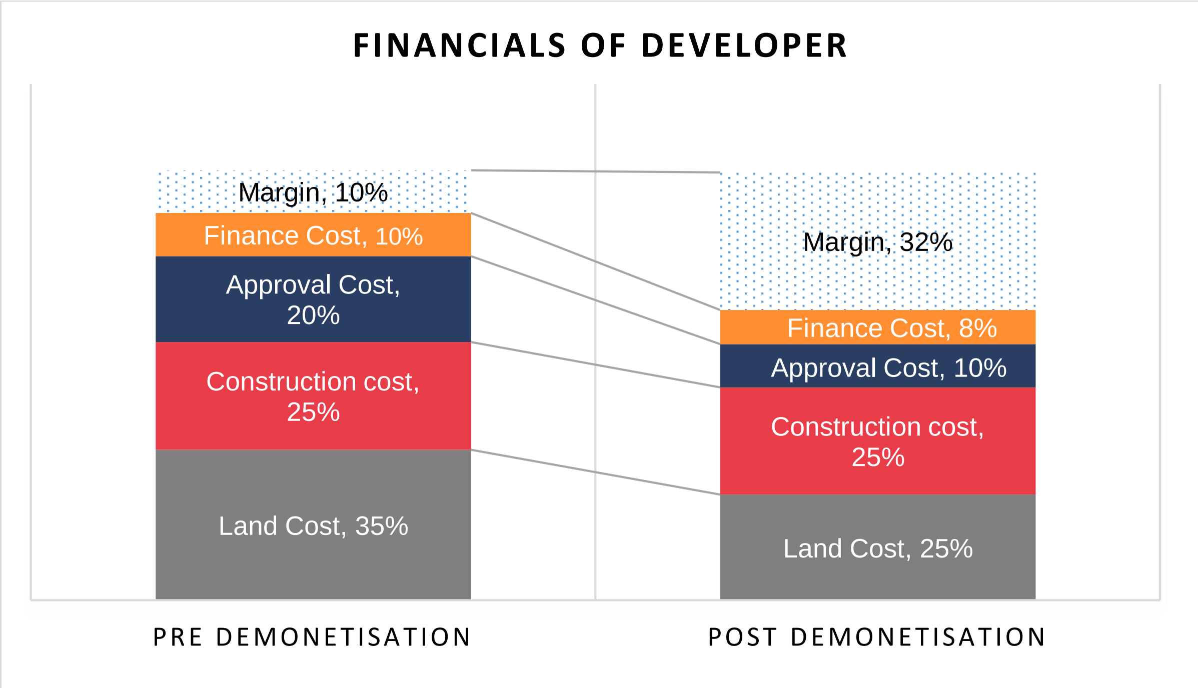
POSITIVES OF DEMONETISATION

While transactions in luxury and plotted markets are sure to be impacted in the short to medium term, we believe demonetisation will usher in an era of efficient pricing in real estate and increase involvement of end-users. It will also tackle deep-rooted issues of red-tape on the approval front. Developers will face reduced delays in securing approvals and this will result in faster completion of construction in the long-term.

We expect the price correction to happen over the medium to long-term as a result of considerable pressure on the market due to inventory overhang and other aspects. Due to reduction in prices, the number of transactions will increase, thus the value of sales will go up.

Developers

The straight outcome of 20%-25% reduction in land price is reduction in development cost that would increase the margin for developer. Prior to demonetisation, developers were not able to obtain significant margins, but after price reduction, developers can enjoy better margins. The example given here shows a sizeable increase in margin from 10% to 32%. In the best possible consequence of this, developers will be able to pass on the benefit to the consumers through reduced pricing. Increased demand on this account will lead to better sales realisations for the developer.

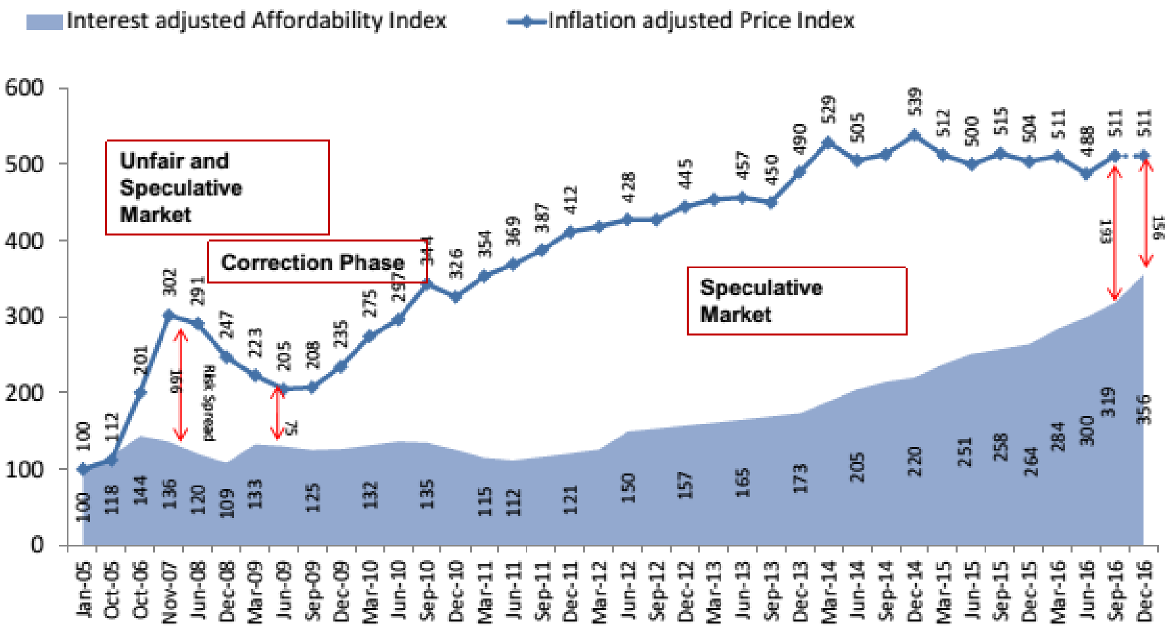


Source: Liases Foras

- Land prices expected to decline by 30%, as the cash component would reduce
- Approval cost is expected to reduce due to reduced corruption
- Both these factors will enhance the capacity of developers to reduce the prices especially in the affordable segment
- The affordable housing projects would become financially viable within the city limits. This would result in higher consumption in the segment
- New launches are expected to be at lower prices and in the affordable segment.

Buyer

There is an expectation that banks may proceed to reduce interest rates. This augurs well for the end-user. Affordability will further increase by 11% in case interest rates reduce to 8.5%. Moreover, reduced pricing by developers will lure more end-users to the market.



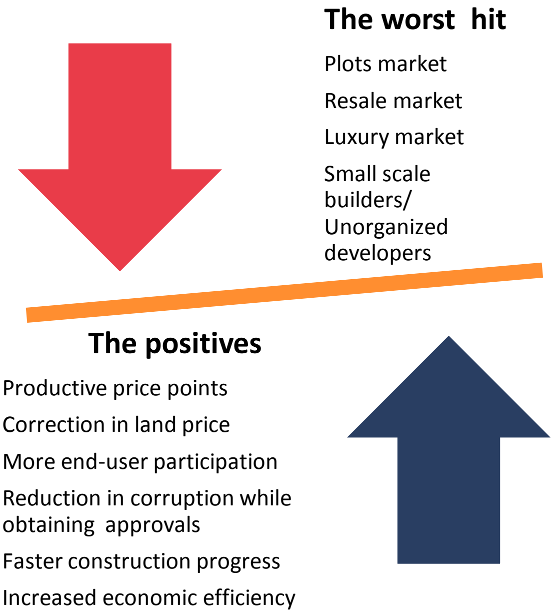
Source: Liases Foras

Affordability has increased by 23% in the last one year due to price stagnancy and interest rate reduction.

Combination of price correction in affordable and mid segment and reduced interest rates, will bring efficiency in the market and stimulate demand from end-users. Pent up demand of the last three years will come in the market. Moreover, in the New Year, PM's housing loan interest subvention scheme will foster growth of affordable housing in India. **The government's decision to offer interest subvention of 3% and 4% for loans of up to Rs 12 lakh and Rs 9 lakh, respectively under Prime Minister Awas Yojana (PMAY) is most likely to benefit affordable segment in urban peripheries.**

New launches are also expected to be at lower prices and in affordable segment. **Despite correction, the net increase of the turnover of the market is anticipated to be around 8%-10% as the volume of sales in the mid and affordable segment may increase due to attractive pricing.**

Briefly, this is the quintessential surgical strike – sharp and perfectly-timed! Not only will it usher in an era of efficient pricing in real estate and increase involvement of end-users, it will also tackle deep-rooted issues of red-tape on the approval front. Developers will face reduced delays in securing approvals and this will result in faster completion of construction in the long-term. This is a bold step in eradicating black money from the financial system and if it achieves the desired outcome, real estate will be the biggest beneficiary. Ultimately, real estate is one such sector that truly reflects the face of the economy. The more transparent and strong an economy is, the better it augurs for the health of the real estate market. The efficiency that will prevail in the market will outweigh the short-term negative impact of demonetisation on the real estate market.



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About Us

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Liases Foras: The Pioneer in Scientific Research in Real estate

Founded in 1998, Liases Foras is a non-brokerage research centric firm that offers data and advisory services. Our works on industry and scientific prognosis of the local market is highly regarded. We have an organized and structured data source on real estate and property trends in India, which is updated on quarterly basis by primary market survey.

In 2015, DMG information, UK acknowledged us as their strategic partners.

Data & Coverage

Liases Foras has a geographical coverage of more than 125000 projects all over India. As of today, we monitor more than 18,000 ongoing projects every quarter spanning 55+ cities in India, which comprises 80+ Census cities. We have tracked over more than 50 billion sq ft of Residential, Commercial and Retail supply over time.

PRODUCTS & SERVICES

PRODUCTS

Ressex
Ressex, our online data interface, provides structured solutions to day-to-day questions pertaining to real estate markets and projects.

Comparables
Comparables is a first of its kind, a unique web based valuation validation tool.

Developer's Rating
It is the first of its kind analysis of the on-ground performance of more than 8500 developers across 55 census cities of the country.

Business Intelligence and Risk Analytics
With our razor-sharp analytics, we help banks, HFCs and corporates to identify the potential opportunity and underlying risks.

Construction and Approval Monitoring
Project Monitoring, Legal Due diligence and Technical evaluation across projects in a single platform.

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Highest Best use Analysis
Every structure belongs to its location and time. The analyses scan into various options to find out the one which gives the highest/ maximum development realisation.

Valuation Report
Liases Foras offers transparent, scientific, data-driven and unbiased valuation solutions.

Urban Planning Services
We prepare City Development Plans outlining the vision and development strategy for unlocking land in a city.

Consumer Profiling
We specialise in the field of real estate-specific consumer surveys.

Preparing a Design Brief
Extending beyond the best-use prognosis, we write uncluttered, contextual design briefs for Master Planners/Architects.

Product Viability Study
This study is to ascertain that the envisaged development and product plan of the developers are correct or risky. The overall objective of the study is to analyse the competition and validate the envisaged product-mix at the subject-site.

Risk Reports
Risk Reports are carried out primarily to assess the state of the market and measure the price correction during oversupply scenario or default risks in the market.