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Impact of Demonetization

How is demonetization likely to affect the sector, as well as property rates?

Demonetization is likely to result in declining property prices, as well as land prices, as buyers would be unable to invest in real estate in cash. It is reported that the involvement of cash for real estate transactions is particularly high in Delhi - NCR area. Thus, the impact of demonetisation is also expected to be proportionately high here. Most major land deals are also now very likely to be cancelled or renegotiated taking into consideration the new developments.

What exactly is the relation between demonetization and declining property rates?

The surging trend in property rates are displayed in situations where registrations are done at a lower tagged price and the remaining margins are usually adjusted by the buyers through cash payments. In the light of new developments, after demonetization it is going to be very difficult for the home-buyers to produce this cash for margin payments. Moreover, the builders will also not be accepting demonetized notes and the natural outcome of this is going to be a fall in the property rates.

How long a period of time is the impact of the move to demonization likely to be spread over?

The move of demonetization has the possibility of resulting in a sluggish market, particularly in the coming one year. But, the falling prices will be especially with regard to higher-end, premium property, which is sought by the more well-to-do, as compared to entry-level housing which are, in most cases sought by those purchasing houses for the first time and are modestly priced.

Is the effect of demonetization on the real estate market likely to be uniform across the country?

According to recent economic surveys such as that done by the Kotak Institutional Equities, the National Capital Region and the Mumbai Metropolitan Region are likely to be affected in a manner much worse as compared to markets in Bangalore, Pune, Chennai and Hyderabad, since it is in Mumbai and Delhi that investors are primarily located in.

What positive impacts is the move likely to bring in to the sector?

It is believed that eradication of black money from the sector might bring an end to the bias in the country's housing market where investment comes primarily from the well-to-do, and will consequently encourage the affordable housing sector to head for a booming phase. It has been reported that the increasing deposits with banks would result in the lowering of

interest rates and the country would come closer to achieving the goal of housing for all by 2022. However, we shall only know when the process of transition from old to new currency notes and restoration of liquidity has been completed.

A positive trend in the percentage change in announcements of upcoming projects in the construction and real estate sector has been observed, the figures being highest for the quarter ending September 2016, since way back in December 2010. Though such numbers do not remain stable for long, but if it drops significantly it might indicate the negative impact of the decision to demonetize.

Over the long term, the Indian real estate sector will emerge stronger, healthier and capable of long periods of sustained growth. It is believed that there is no reason for developers and investors who have conducted their dealings transparently and legally, to panic. It will essentially be business as usual for them, who have adopted fair practices.



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