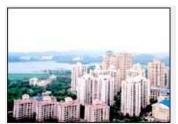
## Will Hot Property Cool Off?

Should the correction in equities prices point to a similar downturn in real estate and housing prices?

By Krishna Gopalan

Between 1986 and 1990, real estate and equity prices spurted dizzily in tandem in Japan, with the benchmark stock market index, the Nikkei, shooting into 40,000 territory and property prices in the posh areas quoting at a mind-boggling \$140,000 per square foot. Speculators fuelled by



easy money had pushed prices to heady levels. But the end came swiftly and suddenly, with some \$20 trillion being wiped out from the land and stock markets. Japan has never been the same again.

Not for a minute are we suggesting that India is going the Nippon way, but the Japanese crash is a lesson for all markets on the dangers of excess speculation in any assets. And when two asset classes blow out simultaneously and so spectacularly, the tremors are felt for decades later (as in Japan's case). But let's stop playing Cassandra now, and instead look at the Indian real estate market, more specifically Mumbai --- the country's financial district, home to the stock exchanges, and where property prices are showing no signs of coming off. Mumbai Textile Mills, which has an area of 17 acres, was sold for Rs 702 crore, Kohinoor Mill No 2, which is housed on an area of 4.9 acres, went for Rs 421 crore while Elphinstone Mill found a buyer for its 7.8 acre property at Rs 441 crore. Effectively, the rate on a per square foot basis works out to a minimum of Rs 5000 and a high of Rs 15,000, which you'd agree are prohibitive rates if you're looking to buy a home in Mumbai. But remember the prices quoted above are just for undeveloped land. Homes or offices or supermarkets created on these stretches of land could command prices in the Rs XXXX-XXX per sq foot range. And there will be buyers, your neighbourhood agent will grin and tell you.

In the wake of last fortnight's 20 per cent equities meltdown, it's worth doing a reality check on real estate. The correlation between equities and real estate isn't cast in stone, but the most obvious one is that profits booked in stocks tend to be deployed in property over the longer term. More than that, though, what has been driving both the real estate and stock markets is the easy access to liquidity over the past three-four years. Now, with rates tightening all over the world (India included) and funds not as easy to find, will the speculative nature of the rally in land prices reveal itself?

Pranay Vakil, Chairman, Knight Frank, a Mumbai-based property consultancy, agrees there has been a lot of money that has come into

real estate from the booming stock market. He also talks about plenty of "obscene money" finding its way into property. The fall in the Sensex could just end up having a sobering effect on the volumes of real estate transactions, he avers. "If the fall in the indices lasts for a fortnight or three weeks, there's little doubt that sentiment in real estate will be affected," says Vakil (at the time of writing, the benchmark Sensex appeared to have bottomed out, and had erased X per cent of its loss last fortnight).

The good news, though, is that whist there may be a whiff of speculation, genuine demand too is playing its part in fuelling prices. As Jitender Balakrishnan, Deputy Managing Director, IDBI Bank, explains: "Yes, the real investors "More land with mill land sales "Rates may have availability is nuser"

## THERE ARE CONCERNS OF A BUBBLE IN REAL ESTATE

- » Interest rates have perked up, making home loans more expensive
- The stockmarkets have corrected near 20 per cent and land prices could follow
- » Speculators have driven up prices to unrealistic levels in pockets
- » If global liquidity dries up, the much awaited foreign money may not materialise
- ...BUT DEVELOPERS ARE STILL SANGUINE
- » Supply is limited and demand huge, particularly in metros
- » Most buying isby end-users, not investors
- » More land will be freed courtesy mill land sales
- » Rates may have gone up, but funds availability isn't yet difficult for end user

estate market is overheated to a certain extent but one must understand that there is a lot of pent-up demand that is coming in. And in cities like Mumbai, where supply is limited --- the mill land sales could provide relief to some extent, though not entirely --- economics takes over. Niranjan Hiranandani, Chairman, Hiranandani Constructions, agrees prices are on the higher side, but he isn't worried because 90 per cent of buying is being done by actual users. "I think there has been a very small percentage of money that has come into real estate from the stock markets. There have been more compelling reasons for the increase in prices like a genuine demand existing, a strong economy and also a good market for rentals," says Hiranandani.

You wouldn't expect a builder to think otherwise. The worry is that with interest rates rising and liquidity conditions subdued, is a sharp correction on the cards? Knight Frank's Vakil says, "the upswing in prices has been too sudden," which may point to an exaggerated movement in the other direction (as on the stock markets). Unlike stocks, regional and location-driven factors play a key role in determining real estate prices. And although an across-the-board blowout appears unlikely in the short term, don't rule out a few mini bubbles popping here and there in the months ahead.