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REAL ESTATE: THE DLF EFFECT

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How many of us have seen our investments in property and real estate go up substantially in the last couple of years? My guess is all of us. The real estate has appreciated by over 10 times in Bangalore in the last 3 years. Some pockets in Gurgaon & Noida have also seen that kind of a move. On an average the land prices in many cities have tripled in value over the last 3 years.

At the beginning of this year, I thought that appreciation has been quite significant and from this point the real estate prices will at best stagnate and at worst start moving down.

Then in April I read the following headline "**DLF IPO to make India a property-driven stock market**" in Hindu Businessline. The article further elaborates that DLF Universal will come out with the mother of all IPOs, at Rs 10,000 Crore in June 2006.

CLSA in April has come out with a report saying that post this IPO, India will become a property driven stock market very much like Hong Kong & Singapore in the Nineties.

Post the IPO, the projections are that DLF will have a market cap of over Rs 1,00,000 Crores, and that its owner KP Singh (who will own 88% of the company post IPO) will be the richest Indian based out of India (beating Azim Premji and Ambani Brothers to the mark).

I remember that in 2004, Business Today came out with an article claiming that given the value of land bank that DLF owns, KP Singh would be among the richest Indians. Since then the real estate valuations have moved up dramatically. For one to understand what DLF is all about, one needs to make a trip to Gurgaon.

Just to go a bit into the history of DLF - it is a 60 year old company that started as colonisers in Delhi & developed a number of Colonies in Delhi - Model Town, GK-1 and GK-II. In the 1970s Indira Gandhi made Delhi Development Authority (DDA) as the sole agency to develop property and real estate in Delhi and overnight DLF was left without any business. Then came the move that laid the seed for the current fortunes of DLF.

In late 1970s, DLF was left without a business but significant cash assets. The company scouted around and homed in on the sleep village of Gurgaon. At that point the Maruti project was being discussed and since Gurgaon was chosen as a location, it made good business sense.

Over the next 10 years DLF bought over 10,000 acres of land in and around Gurgaon. They developed the First township DLF Phase 1 in late eighties and starting selling plots out there. Ansals and Unitech also followed them into Gurgaon as they saw the potential.

Rest as they say is history. Today the Gurgaon skyline is dotted with many glass edifices all singing paeans to the progress made by DLF. DLF City (made of 5 phases) is spread over 5000 acres and there are many other plans of the group.

All this happened while not many in India had even heard of DLF. Over the last 2 years DLF has focused in becoming a pan India player and bought big properties in Mumbai, Bangalore, Chennai, Pune and Jaipur. There may be many more that you and I are not even aware of.

So coming back to the present, I being a cynical creature that I am, always thought that in real estate we are heading for a bubble in Jan 2006. And so I lived in bliss till I read the headline mentioned above. That started me thinking again and I have come with some astounding facts

- **UNITECH LTD** - In the last 3 years (May 2003 to Apr 2006) Unitech share price has moved from Rs 40.60 to Rs 6068 an amazing return of over 14,846%. The stock has been hitting circuit for the last 2 months as people believe that post the listing of DLF, Unitech should command very high valuations, based on the current market value of its land bank.
- **ANANT RAJ INDUSTRIES** - In the last 1 year (May 2005 to Apr 2006) Anant Raj Industries share price has moved from Rs 15.60 to Rs 816.2 giving a return of over 5,131% in just 1 year

- **ASHIANA HOUSING & FINANCE LTD** - In the last 40 days (20 Mar 2006 to 30 Apr 2006) Ashiana Housing share price has moved from Rs 97.1 to Rs 352.2 giving a return of over 263% in about 26 trading sessions (The gains could have been much more if the 5% daily circuit limit was not there)

I can keep going on about this but I guess the reader gets the idea

These stories are too good to be true. To get a 100 bagger (a stock that appreciates by over 100 times) in your investing lifetime is a very rare phenomenon, and to have so many in just one domain (real estate) can only mean either of two things –

- ONE - There is a paradigm shift in terms of how people value real estate in India, or
- TWO - we are approaching a bubble in the real estate sector.

I feel that this is a bubble that is building up. There are many anecdotes that come across my mind. Recently a friend approached me with a pre launch offer of a property in Jaipur. He said that all I had to do was cut a cheque for Rs 2 lakh and in a month the broker will sell the property to some other investor at Rs 3 lakh, giving me a return of 50% on my investment in a month. Amazing! isn't it. There is another anecdote - My driver who lives in one of villages near Gurgaon recently resigned. He told me that his land in the Village was sold for over Rs 3 Crore and he now planned to start his own transport business. In one stroke, he could now afford to keep me as his driver.

When analysts like the one in CLSA report start valuing Infosys based on the value of its land bank, then you need to question what is happening around you. Perhaps the long established principle of value creation doesn't hold anymore. It is today not important to build intellectual property, have jobs and work hard to be rich. Indians have found a short cut which is to buy real estate and wait till someone comes along to pay a higher price for it. I think there is a term of it – **"THE GREATER FOOL THOERY"**. As long as one buyer can find another buyer willing to buy the same asset at a higher price, the first buyer makes a gain in a short period of time and the new buyer now looks for the next in line. This goes on till the last one in the chain ends up carrying an asset at hugely inflated prices for which there are no longer any takers. As long as you are not that last person, you end up being the winner. So as long as you find a fool greater than you, you are safe – or so goes the thought process.

The rate at which real estate prices are going and adding to the wealth of the people we could have reached the prosperity of Americans in a decade. Basic economics will tell you that an asset can't appreciate till someone finds a better or more productive use for it. The comfort of a house hasn't changed much since the point houses were available at 20% of today's price so there seems to be no reason why prices should be so high.

I hate to be a party pooper or a stock market astrologer. But given the current happenings in the stock market and the way people discuss property and real estate around me, I think we are in for a good correction in the long term in the real estate stocks.

In the short term - ANYTHING CAN HAPPEN!!!

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