

## The Real Deal in Festive Season 2019

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- Anuj Puri -

Top 7 cities saw housing sales improve by 51% in Q4 2018 against Q4 2017

Sales in the festive quarter of 2018 were 69,860 units

City-wise sales increases in festive season 2018

Affordability - prices rose just 14% across the top 7 cities between 2013 and Q3 2019

The festive season has traditionally been an active period for real estate sales as many buyers consider Navratri and Diwali an auspicious time to buy property. Like in previous years, developers this year have sweetened property deals - some up-front discounts, or more commonly 0% GST (which is in any case not charged on ready-to-move properties), waived stamp duty and registration charges, free reserved car parking, modular kitchens, etc.

However, developers are not the only entities striving to make Festive Season 2019 more... festive. To boost consumption, the government has also announced a slew of measures over the past one month which, while not necessarily benefits to homebuyers, are certainly overall industry sentiment boosters.

While these measures are not limited to the festive season, they were announced shortly before this critical period kicks in and the unspoken intention - to increase confidence and thereby nudge consumption while it is at its traditional annual high - is hard to miss.

Housing-specific Signals - The Government's recent measures for the housing sector include:

Creation of a special window of INR 10,000 crore for last-mile funding of distressed affordable and mid segment homes. Approximately the same amount of funds will be added by outside investors such as LIC, etc.

In another positive and a bold step to help revive the economy, government slashed the corporate tax rates to 25.17% (inclusive of cess and surcharge) from earlier 30%. This could have a ripple impact on all sectors, including real estate, as it will encourage foreign institutional investors.

To increase liquidity, an additional INR 20,000 crore will be given to HFCs by the NHB, taking the total to INR 30,000 crore.

Further, the reduction in interest rates when banks link them to the repo rates may also be an incentive for buyers to consider home purchase in the near future.

Macro-consumption Signals - The economy and residential real estate are closely interlinked, but the commercial real estate sector is an even more efficient bellwether. The job creation aspect of office space absorption is inescapable, but another segment of commercial real estate - retail - is literally a finger on the pulse of consumption sentiment.

To this end, the government has now relaxed the FDI norms in single-brand retail and expanded the definition of mandatory 30% domestic sourcing norms. Also, single brand retailers can now launch their e-store before establishing brick and mortar operations (though they will still need to build their physical store within two years of e-store launch).

In short - more global brands, online access to them even before physical launch, and the eventual consumption of retail spaces coupled with jobs created when stores are operationalized - are definite consumption triggers.

## Festive Season 2019

With various government interventions and proactive deal-sweetening by developers in place, the stage is hopefully set for the last quarter of 2019 to witness increased housing sales. Realistically, we can look forward to a minimum housing sales increase of between 5-7% in the upcoming Q4 2019 - which nevertheless is still far below the increase of 20-25% witnessed during the boom years.

It's still too early to conclude how the festive quarter will pan out for residential sales in 2019, but we can certainly make some educated guesses from studying how they fared last year.

Collectively, the top 7 cities saw housing rise by 51% in Q4 2018 against the corresponding quarter in 2017. Sales in the festive quarter of 2018 were 69,860 units.

In NCR, the festive quarter of Q4 2018 fared relatively well and witnessed sales of 12,730 units - substantially up from 8,200 units in the corresponding quarter in 2017.

MMR saw housing sales rise yearly by 62% - from 12,460 units in Q4 2017 to 20,220 in Q4 2018.

In Pune, housing sales increased from 6,310 units in Q4 2017 to 9,940 units in Q4 2018, increasing by 57%.

Bangalore saw housing sales jump up by 45% from 10,250 units in fourth quarter of 2017 to nearly 14,820 units in corresponding quarter of 2018.

In Chennai, residential sales saw yearly jump of 26% - from 2,600 units in Q4 2017 to 3,290 units a year later.

In Hyderabad, sales increased from 3,920 units in Q4 2017 to 4,990 units in Q4 2018, increasing by 27% y-o-y.

In Kolkata, sales rose by 61% in Q4 2018 to 3,860 units against 2,400 units in the preceding year.

### Hard vs. Effective Discounts

Most developers have not announced 'hard' discounts (officially notified and applicable to all) during this festive season as there are several factors preventing them from doing so. The liquidity crunch brought on by the NBFC crisis, coupled with the NHB directive to HFCs to distance themselves from subvention schemes, has limited developers' access to working capital.

The new GST rates without input credit have further squeezed profit margins, and the high cost of raw materials such as steel and cement (which fall in the highest GST slab of 28%) further limits the scope for blanket price reductions.

While discounts may be extended to buyers showing serious intent to seal the deal, this year developers prefer to offer 'effective' discounts by way of waiver of GST or even stamp duty and registration charges. This effectively lowers the cost of a property by as much as 5-12%.

### Affordability

Overall housing affordability has not degraded significantly. The average property prices across top 7 cities have seen limited appreciation over the last six years - there was a mere 14% increase across the top 7 cities between 2013 and Q3 2019.

Pune recorded highest increase in average prices during the period at about 38% - from INR 3,975 per sq. ft. in 2013 to INR 5,487 per sq. ft. in Q3 2019.

NCR witnessed lowest increase of 2% in average capital values during this period. It is INR 4,565 per sq. ft.

in Q3 2019.

Southern cities of Bangalore and Hyderabad saw jump of 20% each between 2013 and Q3 2019 with current prices hovering around INR 4,955 per sq. ft. and INR 4,180 per sq. ft. respectively.

Kolkata saw its average prices rise from INR 3,850 per sq. ft. in 2013 to INR 4,375 in 2019 while MMR saw 10% rise during the year with current average price of INR 10,580 per sq. ft.

Chennai saw average prices rise by merely 3% during the period to INR 4,930 per sq. ft.

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