Realty sector disappointed on RBI status quo, urges banks to cut interest rates: The Economic Times

Real estate builders and experts were disappointed with the stance taken by the Reserve Bank of India of keeping key policy rates unchanged. They urged banks to pass on the benefits of earlier rate cuts to the end users.

Industry participants, however, expect a rate cut in the coming months on stabilising economic scenario and a good monsoon.

RBI maintained status quo on key policy rates, second time in a row, at its third bimonthly money policy review of this financial year on Tuesday, keeping the repo rate at 6.5% and the cash reserve ratio at 4%.

Various economic head-winds like high retail inflation in June and the Brexit were cited as the major reasons for a

"Considering that the country has been blessed with good monsoon this year, we were anticipating that the RBI would take a more balanced and futuristic view in consideration and definitely grant a cut as far as interest rates were concerned. Unfortunately, we have been disappointed again," said Getamber Anand, president of realtors' body CREDAI National. "However, we have always been optimistic that the RBI in its wisdom, in the coming months will announce a rate cut," he added.

The last seven months have borne good news for the sector with the passage of the real estate regulatory Act and GST Bill, clarity on real estate investment trusts (REITs) and a more than normal monsoon.

"A policy rate cut by RBI would have provided a further boost to the industry which is on the cusp of revival whilst improving sentiments going forward, according to Shishir Baijpal, chairman and managing director, Knight Frank India.

The central bank has reduced its policy rate by 150 basis points since January 2015, but banks have cut their rates only about 70 basis points, citing liquidity concerns.

According to Anshul Jain, managing director, India, Cushman & Wakefield, the RBI has ensured that liquidity has been high in the economy through various measures and hence, it expects the commercial banks to increase their lending at lower rates. "Given that monsoons have been healthy and are expected to boost consumer spending, the industry hopes that banks will respond desirably and lower the interest rates to boost housing sales in the annual extended festive season starting next quarter," he said.

This is how other industry leaders reacted to the RBI's policy move:

Vineet Relia, Managing Director, SARE Homes

RBI Governor Raghuram Rajan's decision to hold the repo rate steady at 6.5% is along expected lines. This being his last policy pronouncement, many sectors, including real estate, were hoping he would pull a surprise by announcing a modest cut, but rising inflationary trends in recent months pre-empted such a possibility. Nevertheless, given the Government's goal of pegging inflation at around 4% within five years, this seems best, particularly since retail inflation is presently at a two-year high."

Arjunpreet Singh Sahni, Executive Director, Solitairian Group

In an anticipated move, RBI has maintained status quo on policy rates, however, other than inflationary pressures most of the other economic indicators which also include robust monsoon were all in favour of a rate cut and so the real estate sector was expecting relief in interest rates by the RBI. For the real estate sector a rate cut at this juncture was important as it could have easily spurred the buying activities in the upcoming festive season on the back of expected reduction in home loan rates and consequently the sector might have also achieved the much awaited growth. Offcourse, looking at all the economic indicators, still there has been a small window to cut rates and so we had kept our fingers crossed for the outgoing RBI Governor to once again boost the sector with giving a small rate cut in this policy review."

Aman Agarwal, Director, KV Developers & Governing Council Member NAREDCO

RBI keeping the status quo is in line with the inflationary pressure and achieving sustainable growth on the economy. RBI in past has taken considerable steps to infuse liquidity in the market however the banks have not passed on the benefits of rate cuts to home buyers. We expect RBI to relax its monetary policies in near future to boost sentiments and ease the burden of EMIs on customers".

Rattan Hawelia, Founder & Chairman, Hawelia Group

No reduction in repo rate will keep the real estate sentiments unchanged. Further reduction was expected which could have significantly impacted the revival & growth of the market at this juncture of struggling real estate sector. Lower interest rates would definitely have a boosting impact on the end user consumer and overall sentiments of the market.

Amit Modi , Director ABA CORP and Vice President CREDAI western UP.

RBI as well as the Developers have done their part, the banks on the other hand have not been generous enough to pass on the entire benefit of this reduction to end consumers. Hence, it is an expected move taken by the RBI Governor to keep repo rates unchanged as the Reserve Bank of India has cut key policy rates by 1.5 percentage points since January 2015 to signal lower interest rates in the economy, but home loan borrowers have got only around one-third of the benefit. We sincerely hope that both Finance Ministry as well as the RBI push all the Banks to transfer the entire benefit to the end consumer for whose benefit it is meant, else these moves will severely stop short of benefiting the consumer and only help in buffering the bottom lines of the banks.

Deepak Kapoor, President, CREDAI Western UP

Though it was an anticipated move, we were still banking upon RBI to slash down rates. The risk of inflation which continues to be on an upper side is a reason that rates haven't been reduced. However, real estate sector was very much in need of a rate cut even if it was to be of 25-50 basis point. But, similar to last time, this policy review also did not brought any relief to the real estate sector as status quo was maintained. The realty sector is already under immense pressure due to negative market sentiments and lost demand. Besides this circle rates in NCR parts like Noida, Greater Noida and Ghaziabad have been increased. Also Registry charges in Noida have gone up this year. Then GST might also lead to increase in property prices. Therefore, in such a scenario, rate cut was the need of the hour to provide the much needed boost to the sector and to facilitating growth on the other hand.

Prashant Tiwari, Chairman, Prateek Group

The unchanged policy rates were in line with our expectations, given the rise in CPI inflation over the last quarters. But it is expected that as economic growth would spur, there would be more chances of rate cut in future. We were expecting a rate cut as the circle rates and registry charges of some NCR regions like Noida, Greater Noida & Ghaziabad have increased which would increase the property rates. Thus, any reduction in interest rates would have optimistically affected the real estate sector and would have enhanced growth. We are now expecting that the rates would be slashed in next policy meeting which would help in imparting liquidity to the market. We are eyeing for healthier market conditions in near future so that demand and interest may improve in property market.

Gaurav Gupta, General Secretary, CREDAI Raj Nagar Extension

RBI has kept the rates unchanged and looks like it has adopted a wait and watch policy with respect to the monsoons as well 7th pay commission as both these factors might spur demand and kick off inflation further. Consumer Price Index has already risen from central bank's target of 5.1% to 5.7% which has made central bank to keep the policy rates stable. We believe that ease in rates would be given in the latter half of this year. Also it seems that focus remains on transmission of already reduced rates to the end users. Therefore banks should not refrain themselves from passing down the benefit of reduced rates to the borrowers. We hope that successor to Mr. Rajan would slash down rates which would eventually revive the market sentiments of a rate sensitive sector like real estate.

Sushant Muttreja, Chairman, Cosmic Group

The status quo during this policy review was down the expected lines. However, rate cut would have improved the scenario in real estate market. Already there is lot of inventory pile and on the other hand there has been a hike in circle rates and registry charges of certain NCR parts. All these are not favorable for the real estate market at present. Therefore we were advocating rate cut in this policy review. But, we are expecting a boost for real estate sector with RBI's next announcement and it should eventually bring a positive trend in the real estate sector.

Zafar Akbar, Chairperson, Exalter Group

RBI has held the interest rates steady which was a very much anticipated move. To keep inflation under control there was little room left for a rate cut in this policy review. But then for real estate sector a rate cut was desirable as property market is going through a turbulence phase. There is a huge supply demand mismatch which has really impacted the realty sector. On the other hand, the GST implementation might trigger the property prices in future. Therefore, reduction in rate cut was very much needed to stimulate growth. This would have reduced the amount of EMI's eventually reducing the burden of home buyers to a large extent.