

## PERSPECTIVES

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## Real estate boom?

appreciated sharply over the last few years. Rising prices suggest ways of increasing urban land supply.

**SUDHIR VOHRA**  
URBAN AFFAIRS CONSULTANT  
DELHI

THE year 2006 has seen an apparent real estate boom. I use the word "apparent" very consciously because all the economic indicators point to a situation where I believe the realty myth has already reached its peak, and is all set to correct itself in 2007.

The Reserve Bank of India (RBI) has already rung its warning bell. The increase in Cash Reserve Ratio (CRR) has led to an increase in interest rates. Besides, the RBI has, through various advisories issued over the past few months, warned banks from putting too much money into the sector. While some seasoned players like the HDFC—one of the oldest agencies in the sector—have taken the yellow card seriously, others may not have.

The hard fact is that there are enough land resources available to house our millions, and to build places of work for them. But the sorry fact is that land management policies in the country are still following the bump-and-trip, muddy-boots approach which, unfortunately, has been the hallmark of our economic growth during the last 15 years.

The fact that land is a state subject in our Constitution has not helped in correcting this fundamental fault line. So we have a situation where Indian cities are vying with each other to project an illusionary demand, and to cut up vast swathes of good land into little cubes of development, without any larger planning or strategy in place.

The influx of foreign funds—possibly due to the changes in laws in Swiss and other banks—has also helped fuel this gold rush. But the deadlines for declaring accounts in these banks is over, and the flow of money appears to have slowed down to a trickle.

Then, there are other indicators. A lot of

the realty boom is to do with building up second homes for the urban rich. Whether this second home is a great idea or not is evident from the fact that earnings from real estate have reduced to about 4-5% of capital cost, and cost of money is up to about 10%.

How long can such an illogical scenario exist is anyone's guess, but the fact that some of the larger real estate companies are now trying to ride the IPO boom to mop up funds from the public (even though their asset bases are suspect) is another sign to watch out for.

If the recent press reports are any indication, the capital market regulator Sebi is tightening up its norms for Realty IPOs and has put together a credible team for the job.

The lack of a real estate regulator is not helping the illusion either. The path is familiar—in telecom, in civil aviation, and in banking, the market opened up first, and the regulators followed. An unfortunate fact of the way our economy has been unbound, but nevertheless true.

The REMRA Bill has been floating around in the corridors of Delhi for five years now, but has not yet seen the light of day. There is now an urgent need to bring in a real estate regulator on an all India level, and to protect the Indian investor

from fly-by-night operators and real estate dream merchants.

Does anyone remember the forestry or the plantation scams? Perhaps, this is also the right time to dematerialise (demat) property titles and transactions, and to bring in transparency in property transactions. But such actions need hard decisions and guts to implement them.

Lastly, it is a fact that the good stories get covered but the bad ones don't. Many regions—Mohali and Rudrapur to name a few—in northern India, have seen a rise and then a 25% drop in 2006. But because we like to boast about the crests, and are ashamed to accept the troughs, we like to close our eyes to the ground realities of the real estate sector.



*Only the good stories travel. Many regions in North have seen a rise and then a 25% drop in 2006.*