The Indian EXPRESS
• August 5, 2006 • www.expressestates.in

Writing on the wall


AMIT MEHRA

Players in real estate lack the vision to suggest or initiate changes, even though they will benefit in the long run

If the real estate sector does not start thinking about reform from within, events might just overtake it

aerial view

Sudhir Vohra

In the past week, the economic papers reported that the Reserve Bank Governor has not approved the venture capital funds (VCF) schemes presented before the bank. The reason stated is that the evaluation of assets systems has not matured enough yet. The same papers also carried stories mentioning concerns about an asset bubble, among other connected matters.

Regarding connected matters, I refer to the deferring of some of the much-publicised real estate IPOs that had been so much in the news a few months back. Such news and events should definitely be of concern to the sector. Moreover, the big guns in the real estate sector need to take time out to reflect on how they need to guide their companies forward.

Time to reflect

The business models of many companies in India's real estate sector are still based on weak foundations and even on speculation. They need to keep in mind, especially when expecting the public to invest in funds or in the company (either through the VCF or the IPO route), that the investor is becoming more informed by the day. The investor today has plenty of other avenues to invest his hard-earned money in, and will not be taken in by mere promises of how his capital will appreciate over time.

Rental incomes have gone down to 3 per cent of perceived, and at times actual capital asset values; there is little real demand in many geographical areas where development is taking place, and loan rates are slowly creeping up to stay abreast of inflation.

Think reform

What is surprising is that we have stalwarts of economic reform now at the helm of affairs in the central government — both the Prime Minister and the Finance minister have excelled themselves in yesteryears in initiating reforms which seeped down to the common man. A host of reforms such as the gold control regime, reforms in banking, housing finance, home finance and many others were brought in — these have transformed the economy during the last decade or so.

So, why is there a lack of similar reforms in the urban sector? If we expect the players in the sector to suggest or initiate changes or reforms, we need to think again. They are inevitably tied down with the intricacies of finding loopholes in land management laws, municipal laws, planning laws and such, that they cannot be expected to generate any thoughts about reforms.

Business models of many companies in realty sector are still based on weak foundations

The latest message form the Reserve Bank — that the real estate sector is not yet ready for VCFs and the like — should be taken seriously by the players in the sector. The stage of hype is over. All that it requires is the right kind of vision to see the writing on the wall. Reform needs to come not only from without but from within as well. So, if the real estate sector and players do not take a deep breath and start thinking in this direction, the reform process might just someday overtake them. ♦

The author is an architect