Housing prices are alive and kicking

A new index shows prices across most cities have risen, despite stories of over supply and dull demand

AARATI KRISHNAN
CHENNAI

Can the selling price rise when a market is over-supplied and demand is dull? Economics tells us that it can't, but the Indian housing market seems to be defying this rule.

Earlier this month, the Ministry of Housing flagged off a new index – the NHB Residex – designed to track housing price trends in 50 cities across India. Releasing the data, the Ministry claimed that the new index offered proof that demonetisation hadn't dealt a big blow to the housing market.

Trends in the Residex certainly support this claim. According to lenders' data compiled by the NHB Residex, as many as 32 of the 50 cities tracked registered rising housing prices and 13 recorded stable trends, in the twelve months to March 2017. Only 5 cities saw declines.

Large markets also exhibited very positive long-term trends. The Residex noted a 44% rise in home prices in Pune, 41% in Mumbai, 37% in Bengaluru and 33% in Chennai, from FY13 to the first quarter of FY17.

But this trend of resilient prices sits rather oddly with the tales of woe about the residential market doing the rounds in the last couple of years, which talk of slower sales and a stockpile of unsold homes.

A perfect storm

The year 2016-17 saw a perfect storm of events come together to dampen demand for housing in India. First came demonetisation and the resulting purge of the cash component in real estate transactions. Then the Budget delivered a rude shock by capping the tax break from 'loss on house property' at ₹2 lakh a year, for second and subsequent homes. This effectively put paid to the 'investment' buying of homes, a key source of housing demand in Tier 1 cities. Cloudy job prospects, stingy increments and layoffs for the IT sector dampened purchases by this crucial segment too.

The last nail in the coffin was the enactment of RERA (Real Estate Regulation Act) on May 1. The new law, which forces developers to segregate buyer advances and deploy it only in specific projects, was expected to result in a working capital crunch for developers. The industry was in go-slow mode in the run up to this event.

Reports show that these events did, in fact, shake up the housing market. Consulting firm Knight Frank India noted in a recent review that,the sales of residential homes in the top eight cities fell by a precipitous 48% in the second half of 2016, compared with the previous year. In January-June 2017, they climbed from that abyss, but home sales in these cities were still 11% below 2016 levels.

Slowing sales saddled developers with large unsold inventory.

Industry researcher Liases Foras estimated that, at an all-India level, builders sat on about 46 months of housing inventory in September 2016. In effect, even if they refrained from launches, it would take 4 years for them to liquidate their existing stock.

Why the price rise

Such excess inventory in any business would normally lead to sellers resorting to fire sales. But the Residex tells us that home prices didn't fall in a majority of cities. What could explain this?

While one can only guess, there are three possibilities. One, given that home ownership is a big aspiration in India, new categories of buyers may have emerged to take up the slack.

For instance, while 'investment' buying was muted, it is likely that lower interest rates induced more first-time home buyers to take home loans to acquire residential property. The 12% growth in bank home loan disbursements in FY17, as per RBI data, indicates this.

Two, the lower demand for upmarket homes may have been made up by a surge in demand for affordable homes. In the last few years, much of the housing market activity in India was focussed on upmarket homes in the metros, costing upwards of ₹75 lakh. But there was a chronic shortage of affordable homes in the sub-₹25 lakh segment. This past year, the Government launched a big stimulus package for affordable housing with an upfront subsidy, with the result that the supply of low-cost homes has jumped. The Knight Frank report notes that homes costing up to ₹25 lakh accounted for 36% of launches in H1 2017, compared with 17% a year earlier.

Three, it is also possible that, thanks to private equity or political funding, many sellers in the Indian real estate industry have staying power, allowing them to wait interminably for buyers to return.

Such explanations apart, the price trends captured in the Residex could also have a lot to do with the strange nature of the real estate beast.

Nature of the beast

One, unlike the market for shares, where all transactions take place on a national exchange and can be collated into a single 'quote', the housing market is fragmented into dozens of micro-markets.

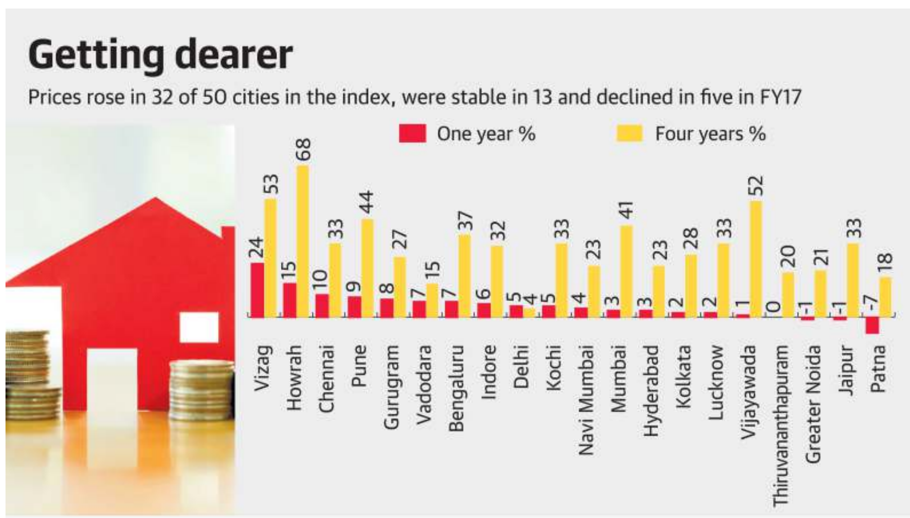
Housing prices can vary widely between cities in the same State, localities within the same city and even neighbourhoods within a locality. Transactions are negotiated one-on-one between buyers and sellers and then reported; deal values depend mainly on the negotiating power of each buyer vis a vis the seller.

Two, for the prices in any market to realistically capture demand and supply, the number of reported transactions needs to be large. In the housing market, when prices are low, sellers are known to refrain from deals, leading to fewer transactions. Property deal-making was indeed at a low ebb across India this past year, with sellers unwilling to drop prices, buyers waiting for better bargains and new launches on hold. Therefore, it is quite plausible that the prices culled from the reported deals were not wholly representative of the market mood.

All these issues, however, don't detract from the usefulness of the NHB Residex as an indicator. So far, home buyers had no publicly available benchmark to go by, when assessing list prices quoted by developers in their cities. Policy makers and lenders had no means to gauge long-term trends in housing across India, for decisions about monetary policy or interest rate-setting.

Investors weighing options had no means to compare real estate returns with those from asset classes such as shares or gold, to make sensible choices.

The NHB Residex fulfils this crying need. Hopefully, as the index expands its coverage to more cities and broad-bases its sources, it will make the Indian housing market more transparent and empower the hapless home buyer.



SOURCE: NATIONAL HOUSING BANK
BASED ON NHB RESIDEX - HOUSING PRICE INDICES (ASSESSMENT PRICES), NEW SERIES
ONE YEAR DATA REPRESENTS PRICE GAINS FROM Q1 2016 TO Q1 2017
FOUR YEAR DATA REPRESENTS PRICE GAINS FROM FY13 TO FY17

What is NHB Residex?

AARATI KRISHNAN
CHENNAI

NHB Residex from the National Housing Bank, designed by a technical advisory committee comprising Government representatives, lenders and property market players, is a set of benchmarks that aims to track housing price indicators across Indian cities.

Originally flagged off in July 2007, the index was discontinued in 2015 and was refurbished and re-introduced earlier this month. It now sports enhanced city coverage (rising from 26 to 50, to be eventually raised to 100), a new base year (2012-13) and new data sources (with data from banks and home finance companies and market surveys).

The NHB Residex currently offers two sets of quarterly Housing Price Indices (HPIs) across the cities it tracks.

New gold bond scheme may draw more investors

Recent changes in rules could help bring in HNIs, trusts

OOMMEN A. NINAN
THIRUVANANTHAPURAM

Added sparkle: SGB prices should be exclusive of import duty and IGST, demand industry players. • GETTY IMAGES/ISTOCK

The Government announced a few changes in its Sovereign Gold Bond (SGB) Scheme recently. The primary change was the increase in the limit to 4 kg (from 0.5kg) for individuals, HUF and 20 kg for Trusts. This was probably done to encourage high net-worth individuals, rich farmers as well as trusts to invest in these bonds. The basic premise is that most Indians believe in gold as a time-tested and safe asset class and prefer it over other forms of investment.

So far, SGB has been moderately successful with the launch of eight tranches of these bonds since November 2015, garnering approximately ₹5,000 crore or about 16 tonnes of gold. However, the potential to scale up is huge. Keeping this in mind, the Government has also introduced flexibility in the scheme to design and introduce variants to cater to a cross-section of investors.

The sovereign gold bond initially introduced by the Government in 2015 has achieved only limited success, "mostly because of its unrealistic pricing pattern vis-a-vis the international price of bullion," said James Jose, secretary, Association of Gold Refineries & Mints.

Bullion prices are highly sensitive to international geopolitical tensions, U.S. Federal rates and dollar up-swings. They move in a price band of 5-10% year on year. Past SGB prices ranging from ₹3,150 per gm to ₹2,750 per gm was often not in parity with the market rate realities and this often led to the SGB consumers losing money, despite earning a 2.5% return on investments. The pricing of SGB ideally should be the average of the bullion price of the 60 day-period preceding the issue date of SGB.

Pegged to import duty

Another factor diminishing the attractiveness of the SGB is its price being pegged to a 10% import duty, and any reduction in the import duty by the Government in the subsequent period would likely inflict severe loss of value to those who have invested. To tide over this, "the Government should fix the pricing of SGB at bullion rates exclusive of import duty and IGST," Mr. Jose said,

In case of physical delivery of bullion against SGB at a later date, import duty and IGST should be levied at the point of delivery, according to Mr. Jose. This will make the scheme much more attractive to the general public, thereby enabling substitution of expensive imports that impact the current account deficit (CAD).

NEWS ANALYSIS

While the Government introduced these bonds to help reduce India's over dependence on gold imports, the move was also aimed at changing the habits of Indians from saving in physical form of gold to a paper form with Sovereign backing. Annual consumption of gold in India is in the range of 700-800 tonnes, almost all of which is imported. Of this, approximately 500-600 tonnes is bought by consumers as jewellery for cultural reasons (mainly for weddings). The balance is in the form of gold bars and coins for savings or investment purposes, which is what the Government hopes to convert to paper form so that both are served – investors are happy as long as they earn some returns and capital appreciation at the time of redemption, as well as it helps reduce an equivalent amount of physical gold imports.

'More channels needed'

To ensure further success, the Government should allow mass channels such as gold loan Non-Banking Finance Companies (NBFCs) to also market it, said Thomas George Muthoot, director, Muthoot Fincorp, part of the Muthoot Pappachan Group. "Gold loan companies have been a credible, customer-facing platform for millions of Indians who trust them and hence it can help the scheme reach many more consumers in urban, semi-urban and rural areas," Mr. Muthoot added.

Further, offering gold loan against Sovereign Gold Bonds would help popularise the product from a consumer angle, according to him. For, it would then be perceived as being as liquid as physical gold. Over time, it would also help reduce various risk factors, such as spurious quality gold, and operational costs linked to manual assessment of gold for gold loan NBFCs.

"The increase in the annual investment limit is likely to attract more investment from HNIs and trusts," said Jimeet Modi, CEO, SAMCO Securities. Added incentives are the interest which will be paid on the bonds, and zero capital gains tax on redemption. "Hopefully, now, the government should be able to garner more inflows than the previous schemes," Mr. Modi added.

EXPLAINER

Gaming: a question of skill

Bring it in: There is a demand that betting on sports should be termed as a game of skill. • GETTYIMAGES/ISTOCK

TCA SHARAD RAGHAVAN
NEW DELHI

Gaming in India is rapidly gaining acceptance, by both customers and legislators. But the question is, what exactly is it, how is it currently treated in India, and what are the best practices followed abroad that can be adopted here to regulate the industry as well as earn the government increased tax revenue?

What is gaming?

■ Although 'gaming' in popular parlance has taken on the meaning of playing computer or video games, the term is in fact a reference to competitive activities — like rummy, chess, bridge, and the like – that are not categorised as sports, as well as the betting that is done on them. For example, not only does horse racing come under gaming, but so does betting on what horse will win.

There are some industry players who believe that betting on sports such as cricket should also come under gaming and be termed as games of skill. Regulating sports betting will bring it into the light and will prevent match-fixing, they argue. The Lodha Committee report, too, recommends this course of action.

FICCI, in a report in 2013, had said that the government stands to earn about ₹7,200 crore a year from taxes from only half the ₹3 lakh crore gaming industry in India.

How is gaming treated across States in India?

■ The regulation of gaming in India is fragmented, with each state currently deciding the rules applicable in its jurisdiction, with variations emerging on the definition of gaming, the kinds of games that qualify, and the punishments meted out for indulging in gaming not allowed by law.

For example, Sikkim has the Sikkim Online Gaming (Regulation) Act, 2008 that only looks at online gaming, and not at activities conducted in brick and mortar gaming houses. The Nagaland Prohibition of Gambling and Promotion and Regulation of Online Games of Skill, Act, 2015 only permits skill-based games, defined as all games where there is a preponderance of skill over chance.

The Delhi Public Gambling Act, 1955 penalises the operation of a gaming-house and imposes a penalty for being found in a gaming-house. However, Section 13 of the Delhi Act exempts games of "mere skill" from its ambit.

Laws in other states such as Goa, Gujarat, Andhra Pradesh, Karnataka, Kerala, Maharashtra, Odisha, and Rajasthan are variations of this format. The All India Gaming Federation has asked the Law Commission – tasked with looking into the regulation of gaming – to consider proposing a nation-wide central gaming law.

What can India learn from other countries?

■ The U.K. enacted an updated gambling law in 2005 that provided for the creation of a Gambling Commission, which was tasked with crime prevention, the promotion of an open and transparent gaming and gambling industry, and the protection of vulnerable people from the ills and dangers of gambling. The country further updated this legislation in 2014.

Spain has set a 25% tax rate on gambling revenue, among the highest in Europe, and requires customers to provide their unique national identification numbers, names, and addresses before they can be registered to gamble.

Other countries like Singapore, Malta, and the Isle of Man, have robust gaming legislations that can provide good examples of how India can regulate gaming and gambling while increasing government tax revenue, and curtailing misuse.

'Start-up ecosystem akin to caste order'

In his book, India's first e-commerce entrepreneur pens the story of crests and troughs he has touched

K. BHARAT KUMAR
CHENNAI

Fresh take: Gross Merchandise Value is an overrated metric; it does not mean anything, says K. Vaitheeswaran.

"Entrepreneurs are addicted to other people's money, or OPM," sounds like a succinct description of the state of the e-commerce industry in India. The pun on 'opium' is clearly intended. It comes from K. Vaitheeswaran, the man who pioneered retail e-commerce in India with Fabmart in the late 1990s. He recently spoke to *The Hindu* to promote his book, "Failing to Succeed", that takes us through his successes and later travails in building the predecessor to today's e-commerce giants in India.

The book has an equal mix of stomach-clutching thrills and disappointments that an entrepreneur faces, cloaked with gentle humour. In it, the author has been brutally honest - about himself, his ventures and the ecosystem. It contrasts starkly with today's corporate world whose PR machinery helps gloss over failure and highlight the rosy parts. A great read for those aspiring to start up, and a must read for entrepreneurs who feel things are not going according to plan. Excerpts from the interview:

Continuing on his 'opium theme, he said, "For many entrepreneurs, fund raising is like a drug. They get addicted to it. They get money, and then want to raise more money. How do you do that? By spending what you have very quickly. So, you are raising the bar on just raising more and more money."

'Need patient capital'

The other bane of the industry is lack of 'patient' capital, according to him.

"Indian entrepreneurs need capital but also patience. Foreign capital is impatient." Most investment funds come seeking returns in a 4-7 year time frame from the time the fund commences. "So, if they invest in your firm in their third year, an exit is staring at you in the face." As investors are in a hurry to see returns, they tend to look for scale quickly - which means availability of more funds for expansion. "The entrepreneur is glad to see so much money. But once invested, there is a hustle for returns as well." Quick returns, he said, may not be practical in all cases.

Fabmart, later rebranded as Fabmall and then Indiaplaza, folded up in 2013, after a 14-year roller coaster ride. Asked what disappointed him the most, he said, "I don't have a problem with the business closing down. That's the nature of the beast. In a start-up, you may not get the financial outcome you want."

But there is bitterness about the way the company failed, he said. "Others, who were also equally accountable, in the company should have owned up to the responsibility. There were a series of incidents that led to this ending. Having to see the collapse of a business I had built for 14 years, customer by customer, in this manner is what leaves me pained and bitter."

So what did happen? "What happened to me is surreal – can't believe it happened. People who had invested in the company and who were in the board of directors should have shouldered equal responsibility when the company was going down," he said.

He insisted that "we weren't out-competed, but were undeniably out-funded."

'Pedigree investing'

"The Indian start-up ecosystem is like a caste system – it's hard to break in." Mr. Vaitheeswaran is an engineering graduate from the Government College of Engineering in Tirunelveli and did not go to an IIT or an IIM. "Investors indulge in pedigree investing, that's not a great idea. You can't assume that all the smartness in India is confined to two or three institutions."

Get out of pedigree investing, he exhorted investors. "To do that, investors must spend time and effort and potentially pick winners at the start of the race. Obviously, those who come out of premier institutions are smart. But there are smart people outside those walls too."

What should e-commerce start-ups focus on? In the book, Mr. Vaitheeswaran says, that Gross Merchandise Value (GMV) is an overrated metric and that it does not mean anything. In his own business, he had focussed on making each transaction with a buyer profitable. He preferred to focus on metrics such as customer acquisition and customer retention costs. Deep discounting models work only when the concept of 'LMS' works.

In the interview, he said, "The Last Man Standing, or LMS model, is outstanding, but will work only if there is no other competitor left in the market. But in reality, there is always someone left standing in the market. Indian unicorns have a hard problem to win – foreign competitors have more money, bigger brands and they execute better. It's a mug's game."

For someone who pioneered the concept of Cash on Delivery (CoD) in India, he has had to withdraw the facility both times he tried introducing it. "Cash on delivery is a strain on the business. It also shows a lack of trust from the customer." In the book, he argues that paying online is far more convenient and that CoD looks smart only as long as there is unlimited funding.

'Permanent damage'

More money going into unicorns that want to outfund others, could lead to funding drying for truly deserving ventures, he said. "They may not get funding because a large part of the ecosystem will pay for the follies and fallacies of a few. That's when the bad news will hit us. Worse, we may not even hear about them since they are unknown people - they may just collapse and fall by the wayside.

"It will cause permanent long-term damage to India's start up story. I don't want that to happen."

What questions would he ask of a unicorn, as an investor? "You have already raised several billion dollars. At 10% of this fund raise, I want to see evidence of sustainability. Show me a path where you will definitely make money."

"If someone shows me a 17-year path to profitability, I wouldn't fund it. No one knows what will happen three years from now!"

Is he itching to start-up all over again? "Writing a book is no different from a start up - you need time, discipline and effort. Sure - it does not require a co-founder or the money. Yes, I have done another start up - this book is my biggest start up!"

Does he see warning signals in the ecosystem now? "One thing that all start ups will realise is rarely do things go according to plan. In such a scenario, the investors, entrepreneurs, board of directors, founders, management - they all must read from the same page. Whatever the page says, they must all be fine with that.

"When things go wrong, I find that they are all reading from different books, forget the same page! They may not agree, they may debate and argue but should finally agree on one plan of action."