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Housing growth has to be government-driven

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First-time buyers look for social infrastructure including availability of schools, says Srinivas Acharya.

Residential housing segment has been going through a challenging time as purchases have plummeted across cities. Major reasons for this include high price points, higher interest rates and cautious buyer approach, among others. The recent rate cuts may augur well for the realty sector. **Srinivas Acharya**, Managing Director of Sundaram BNP Paribas Home Finance, however, is convinced that individuals cannot indefinitely postpone house-buy decision. In this interview with *The Hindu*, he articulates his view points on issues affecting the housing sector. Excerpts:

What are the challenges that this sector is currently facing?

The home buyers have been hesitant to take a long-term commitment. Typically, the buyers look at buying a house property based on future income and likely salary increases over the next five years. About 60 per cent of the home loan buyers belong to the salaried segment. Within that, 50 per cent are from the IT sector.

There is a certain uncertainty in this segment in terms of job security. Though acquisition of a house is possible only through long-term loans for the salaried class, they are unwilling to take the long-term call at this moment due to uncertainty.

While we are getting a number of enquiries and even sanctioning is happening, they are holding on to the final buy decision. Prospective buyers are postponing their buy decisions. They are currently in a 'wait and watch' mode. Hence, the sales cycle is taking longer than before.

Is the higher interest rate main cause for postponement of home purchases?

The sector has, for a while now, moved into the variable interest rate mode. Unlike in the past when it was a fixed rate regime, in the current variable interest rate scenario, a slight lowering of interest rate is not likely to drive home buying. It is a myth to say that interest rate drives acquisition of home loans. Interest rate could be one of the factors, but it is not the main reason for sluggishness in the sector.

What will drive growth in the sector?

Housing growth has to be Government-driven. Providing connectivity is important for housing development, and infrastructure is important for development and growth of this sector. The sub-30 age group, who are first-time buyers, also look for social infrastructure including availability of schools. Hence, as housing sector expands into the outskirts of cities, these too will become relevant factors.

Will the 'Housing for all' scheme help revive positive sentiments in the industry?

This is good and welcome initiative. It is important for the Central and State Governments to work together as the action has to happen on the ground. Land has to come from the Government since 60-70 per cent of the cost is towards the land. Also, a person who needs affordable housing will also need a secure job and transportation facility to his place of work. For affordable housing to become a reality, the Government has to chip in with land and lay specific conditions on timely implementation.

How do you see the opportunities in the rural housing sector?

There is tremendous scope to do funding for rural housing. The default rate is low there, and a lot can be done in this space. This is an ideal solution to enhance rural prosperity. Legalising title will play an important role in making rural housing a success. While we disbursed about Rs.70

crore last year, we have already done close to Rs.20 crore in the first two months this year. We are quite hopeful of our prospects in this segment as default rates are low in this segment.

How does acquisition of portfolios of smaller HFCs (housing finance companies) help you?

We buy the portfolios of smaller HFCs in the affordable housing space, wherein they originate the loans and we will then take over. Recoveries are impressive in this segment. We have recently done three deals amounting to Rs.30 crore. Time taken to appraise customer at lower price level segments is higher. We don’t have to do initial marketing. Buying portfolio of smaller finance companies helps from a cost structure point of view. These deals have been very good for us. There is good potential for us to grow in the lower segment. We will continue to explore opportunities in this space.

How is your company placed in the market in terms of services and business?

We excel in turnaround time because of our specialised expertise. All our arrangements are in-house, including credit appraisal and legal. We also pride ourselves in understanding the customer needs and adopting a customer-friendly approach.

Given the challenges in the business, what will be your immediate-term focus areas?

Earlier, we had been largely south-focused. In the last four years, we expanded our presence outside this region. While the overall market has been challenging, there have been certain pockets that have offered us opportunities.

We are in the processing of opening up eight new offices in Gujarat and Rajasthan this year. That is a significant expansion for us, and we are confident that we will be able to garner good business from these two markets. Andhra Pradesh also holds good potential for us.

When do you see the recovery?

We are hoping that the buyer’s resistance will not last long as it has already been an extended slowdown. Demand projection was high two years ago, and a lot of projects came up. We have heard that there are 20 plus quarters of unsold stocks (in the Chennai region) in the market but I do think that when the recovery happens, the entire finished stock could get consumed in a single quarter because the demand is real and people are not likely to indefinitely postpone their decision.

Hence, they could very quickly lap up the unsold stock once the first set of buying starts happening. Overall, there is a general stabilisation of the economy. We are hoping that the government spending will start happening soon. We expect a recovery in this space in the second half of this year, more towards the fourth quarter.