"REGULATOR CAN MAKE THE CHANGE"

Kapil Wadhawan is Vice-Chairman and Managing Director, Dewan Housing Finance Corporation Limited [DHFL], a company focused on home finance to the low and mid-income segment, particularly in rural and semi urban India. The company has an asset base of over $800 million and registered a 39.90 per cent growth in net profit at Rs91.76-crore for the financial year 2008-09 as compared to the previous year's Rs66.59-crore. Kapil Wadhawan spoke to Padma Ramakrishnan on various aspects of real estate and housing finance. Excerpts:

What do you think is needed to revive the property market?

There are measures being taken by the government and the industry. The mandate given to the Congress government has instilled confidence in the real estate market and business will increase for realty companies as there will be a fair amount of economic activity in the next couple of years. The Qualified Institutional Placements [QIP] by realty companies will go towards reducing their debt burden. However, the commercial market, which is dependent on the services sector will continue to see signs of stress with exports, IT and hospitality having been adversely impacted

due to the global crisis. Overall, there are signs of revival being seen.

How will the home loan market perform in the days to come?

Housing would be a positive draw. The mid-income segment up to Rs20-lakh has sustained demand. The difficulty is in tracking unit sales city by city.

The down payment component that buyers are expected to raise is quite high. What is the way out of this situation. Do you think lending institutions can differentiate between the buyer and investor and peg interest rates differently?

One needs to go by the sale agreement value. The Bank or HFC would fund 75 to 80 per cent. Over the last one and a half years, there has not been too much of investor interest in the residential segment. Certain products where speculative interest was taking place, have now come to a naught. Differential interest rates would work but more important is the presence of a strong regulator for the real estate sector which would ensure escrow accounts for advances taken from buyers. Projects get stuck mainly because of money collected for one purpose but used elsewhere. A bull market always sees large number of people with no background come into the realty sector. In the coming year, strong players will come on the surface. Strong developers with good track record is not adequate; we need to continue to work with resources. Margins of 80 to 100 per cent for developers are no longer sustainable, they would have to come down to 30 to 40 per cent.

What are the changes developers need to bring in to make it a more organized market. A regulator for the real estate market – Your comments

On the interest rates, the government has its own constraints. The RBI has reduced rates, but depends on how and when banks will bring down the rates. Despite housing being a state subject, the centre will have to play a key role and start to bring down barriers in housing. Differential stamp duty rates, effective utilization of funds streamlined through escrow accounts are some of the issues. The real estate sector continues to be fragmented with listed players and developers operating in the private domain. Even with listed players everything is not transparent. Enforceability and strict penalties would send the right signals to players. Cash flows need to be regulated and administrative hurdles removed. Despite Urban Land Ceiling Act being banned in Maharashtra, we still need to procure no objections under ULC for certain projects. In certain cities FSI needs to go up, specially in Mumbai. I don't believe in a policy which doles out anything for free like the Slum Rehabilitation schemes, which only lead to a more complex web of dos and don'ts. Improving overall infrastructure would help.

Kapil Wadhawan
Vice-Chairman & Managing Director
Dewan Housing Finance Corp.

There are borrowers complaining of unfair practices in terms of not getting the benefit of lowered interest rates, prepayment penalties among other issues

Prepayment penalties are common. There are issues in terms of fixed rates not being really fixed in case of some institutions. Floating rates are a function of costing. Earlier we were primarily a fixed home loan market and only moved to floating interest rates in the last six or seven years. The benefits of lowered interest rates should be passed on to all customers.

The future of redevelopment projects, specially in Mumbai

Redevelopment projects have their own lead time which needs to come down, The government needs to throw in some incentives for developers to come into such projects. There are a lot of uncertainties and variants which means project don't come on stream. Even a single member objecting can stall the process. Residents for their part need to view the risks of living in a dilapidated building. Getting the right developer on board is important and it has to be a careful exercise.

What do you think of the projects that have been launched in the garb of affordable housing? What are the time lines for the completion of such projects and how safe is it for buyers to invest in such projects?

Having the right regulation and ensuring that once these projects are announced, 10 per cent booking money goes into an escrow account is important. If it can be done in a small place like Dubai, where they have been quick to plan on the back of large projects announced, there is no reason why it can not happen here. The onus of responsibility lies with the developer in terms of not overleveraging himself and having the requisite approvals in place.

The focus should be on helping developers tide over difficult times and safeguarding buyer interests. The buyer for his part needs to check the credentials of the developer. The market reality is such that not all projects will be executed. States which are more proactive, putting in reforms like fast track approvals will become more efficient. The registration process has become more transparent, but the pace of activity in many other areas needs to improve.

The need of the hour is for developers to offload their existing stock at reasonable prices. How and when do you see this happening?

The new mandate given will change things. There was an absolute lull in activity. Now with sales starting to happen, developers need to improve cash flows. Cash flows based at the cost price is better than no cash flow.

Your company is into real estate development and home finance. What would be your focus areas?

We are strong in home finance and are projecting a 50 per cent growth in home loan disbursements by mid 2010. The real estate development is carried out under the brand name Dhiraj. Besides this we have the businesses of food and beverage retail, food and grocery retail, hospitality, hotels and resorts, education and financial services. In the food and grocery retail, we operate close to 200 outlets. The retail industry is still evolving and is tied up in with the aspirations of the retail consumer. Economic cycles are very severe and sudden but with business activity improving and confidence levels going up, things will improve. RW