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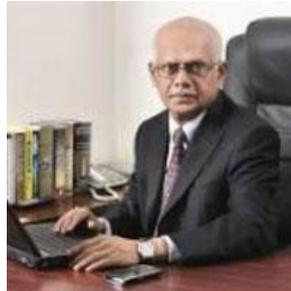
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Real estate is in a pause mode, will get moving after a year: Bikram Sen of ArthVeda EXCLUSIVE

BY SWETSARIKA

The CEO of the realty PE firm says more than rate cuts, job creation would boost demand.

ArthVeda Fund Management is raising more than \$500 million across two realty funds from domestic and offshore investors. Its focus has been on backing mid-income and affordable housing projects across tier I, II & III cities and it has recently launched a mega fund for low-cost projects. Bikram Sen, chief executive officer, ArthVeda, talks to VCCircle on realty market dynamics and where it is headed. Edited excerpts:



What is your assessment of the realty market? Where do you think it is headed in terms of price and sales movement?

There is a tremendous slowdown, especially in the higher-end segment in places like Mumbai, Gurgaon and even in central Bangalore. But that does not mean there will be a crash in prices. I have been expecting that for the last 20 years but that has never happened.

We are active in the middle income housing space in tier I, II & III cities and we are witnessing a slowdown there as well. Traditionally, middle income housing has been driven by end users and therefore it has always maintained steady sales velocity. However, that is not the case now as this market too has seen a fall in demand and there is a considerable slowdown.

It is hard to understand why but my sense is that incomes of people are not going up. This segment is driven by IT/ITeS sector, which looks very uncertain now. So, people are being extra careful. Plus, there is this perception in the market that prices are going to come down; so buyers are ready to wait.

Of course, there are places which are still hot. For example, Pune is still hot. But given the kind of supply which is flowing in, I am not very sure if it will remain hot or not.

What factors, according to you, will kick off the demand cycle?

First and foremost, people have to get jobs and feel positive. The other important factor is investments; new investments have stopped. In the last three-four years, there was a major slowdown and the Reserve Bank of India raised rates back to back to bring down inflation – all this has taken a toll on the sentiments of people.

Even in these three-four years, mid-income housing kept going but now it seems even mid-income housing too is expensive.

Going forward, rate cuts are important but what would be more important is growth in the economy and job creation as a result of it.

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Also, industry has to understand that people want to take a pause. I don't think you can expect any market to see demand steadily going up for decades. There has to be a pause at some point. But I expect this pause to get over in a year's time.

Moreover, the government of India has announced three schemes for urban India. Even if 50 per cent of it is carried through, it is going to change the landscape dramatically. If we take top cities out of the equation, smaller cities/towns will get a major boost on the infrastructure front which means new investments will flow in. This in turn will create jobs.

Though sentiments are weak and demand seems to be going down, funds have not stopped investing. What is your sense on the flow of private capital in the space?

People who have given money to fund managers over the last 10 years have taken a huge beating. In case of offshore investors, they also had to take currency loss. It is really tragic. Indeed, it is a miracle that people are still looking at real estate for investment.

When we look back, one of the biggest problems with the way people invested was size of the investment. Large investments were made, partly because of regulation and partly because of over-enthusiasm. Plus, there was no fund management industry and no experience to fall back on.

In fact, since 2010-11, offshore investors have not been interested to participate in Indian real estate and I don't blame them.

As a result of all this, domestic investors have now stepped in but they are not investing in blind pools and are instead going for specific projects.

On the deal front, given the kind of experience people have had with equity, they have gradually switched to debt/structured debt. People say equity has been disastrous; let's do debt. My position is this: projects and investments have been disastrous whether done through equity or debt.

What are the sentiments of investors now when the government is one-and-a-half years old and has rolled out a slew of initiatives to revive the economy?

Well, the government has done enough to make investors sit up and say 'I am willing to look at it'.

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Fund managers have to have a good strategy, a strong track record and concrete research – and then only money flows in.

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