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Tier II & III cities drive home loans

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* Fifty-seven per cent of the total number of home loans (of under Rs 10 lakh) sanctioned in 2011 were within Tier III cities

* Forty per cent of the loans (of under Rs 20 lakh) sanctioned last year were within Tier II & III cities

*Large developers like DLF, Lodha Builders, Raheja, Ansal Housing and Tata Housing have announced new ventures in smaller towns

Bhopal, Coimbatore, Indore, Jaipur, Kanpur, Kozhikode, Lucknow, Ludhiana, Madurai, Mysore, Nagpur, Nashik, Rajkot, Thiruvananthapuram, Vishakhapatnam–these are not just names of smaller cities but locations that are emerging as the new poster boys of the residential real estate market. While there's subdued demand for residential real estate in the metropolitan areas, the increase in absorption of properties in Tier II and III cities is keeping the realty growth story afloat.

According to PropEquity, a real estate data intelligence and research firm, India's smaller towns have been witnessing a steady rise in prices notwithstanding the global economic slump. While residential property prices in most of the metros hit rock bottom in 2008-09, cities like Ahmedabad, Baroda and Jaipur witnessed an increase of `500-`1,000 per sq ft between 2007 and 2011.

"Demand in Tier II and III cities has been consistently growing. These places are not affected by global factors unlike the metros, which are heavily dependent on global economic developments," says Dr Vikas Gupta, head, research & product development, Arthveda, which is part of Dewan Housing Finance Corporation Ltd (DHFL).

Essentially, demand is driven by end-users (people buying homes to live in), investors (people buying homes as an instrument for investment) and property developers. Rising income levels, access to capital and sufficient supply are collectively contributing to the increase of end-user and investor demand. Developers, who are bogged down by rising borrowing costs, a fund crunch and dwindling sales in metros, are now exploring business opportunities in the relatively smaller metros, where both demand and prices are on an upward trajectory.

A March 2012 study done by PropEquity reveals that 45 per cent of the properties in the National Capital Region (NCR), Mumbai metropolitan region and Bangalore metropolitan region are facing significant execution delays. According to property consultant firm Cushman & Wakefield (C&W), Kolkata's residential market has been less active during the second quarter of the year, while Chennai has registered an overall slowdown in demand despite moderate sales during the first two months of the second quarter. Supply too has dipped by 47 per cent and developers are not increasing property prices to uphold sales enquiries.

In sharp contrast, cities like Pune are expected to see an upward trend in mid-segment housing due to sustained demand and improvements in the quality of construction as well as offerings, says C&W.

“Tier II and III cities are promising for developers as they have lower land prices and numerous potential buyers,” reasons Shveta Jain, director, residential services, C&W India.

No surprise then that leading players such as DLF, Lodha Builders, Raheja, Ansal Housing and Tata Housing have announced new ventures in the smaller towns. DLF, the largest realty firm in India, for one, is building one lakh houses under the Rs 20-lakh price bracket in cities across India as part of its ‘value’ housing segment, while Ansal Housing is executing projects in Baroda, Kanpur and Lucknow and Tata Housing has project going in Kansal near Jaipur. The local developers are not lagging behind. Consider the Hyderabad-based Aditya Group, which is starting ventures in Visakhapatnam, Vijayawada, Guntur and Kakinada simultaneously.

“Tier II and III will drive the demand for home loans. Be it affordable housing or high-end properties, we hope to see good traction from smaller locations,” says Pradeep Kumar, deputy managing director & group executive (global markets), SBI, which recently revised its annual home loan portfolio target from 25 per cent to 20 per cent. LIC Housing Finance too has an eye on smaller locations. According to VK Sharma, director & CEO, LIC Housing Finance, the action is subdued in the metropolitan centres. “Growth is subdued in Mumbai, Bangalore and Hyderabad. However, there is a demand in Tier II and III cities,” he says.

For bankers, the demand is already translating into revenue contribution. The recent Credit Information Bureau India Ltd’s (CIBIL) data indicates that more than half (57 per cent) the total number of home loans (of under `10 lakh) sanctioned in 2011 were within tier III cities, while 40 per cent of the loans (of under `20 lakh) went to the Tier II and III cities.

While a majority of the realtors are coming up with integrated township formats, interestingly, a few are experimenting with lifestyle-related and even luxurious concept-based constructions. Emaar MGF’s Golf View Township on the Ferozepur-Ludhiana stretch is a case in point. “By building concept-based constructions, or having a branded designer or architect, realtors are creating glamour around their products. These are essentially vacation homes and cater to high-networth individuals,” explains C&W’s Jain. In other words, a cottage in one of the regular holiday destinations may no longer be fashionable, but a boutique house in a smaller town definitely can be.