

INDIAN PROPERTY up, down or flat road ahead?



By Tushar Sangani

A few months ago, one of my clients recently came and asked me to negotiate for a flat on his behalf. I gave the developer a call. I started as you would expect, to talk about how slow the market was and how my client was interested in buying a flat in his project. I asked about how much discount my client could get. I was expecting a decent discount, instead of which I was offered a measly 0.5%! Despite pulling every trick in the book, I could get him to offer any more. This is what seems to be happening in many places, particularly in Gujarat.

People worry about a property crash, like what we saw a few years ago. I do not see that happening this round. Yes, there is an oversupply. Yes there is less demand. Yes 15% of flats are unoccupied. But, there is one major difference this time – the developers seem to be having a lot more holding power than they did last time. So what has happened is that the developer is not in a position where he has to offer significant discounts to sell a property, he just decides to not sell until he gets a better price. As a result, you are not seeing prices crashing like last time, just dipping or holding stable.

Recently I hosted an event for some of our clients where I set out my views for people wanting to buy property in India. My opinion is that unless you intend to settle or live in India in

the next 5 years or so, it would be better to buy land rather than a flat. My reasons for this are simple. Flats require maintenance and looking after and meter starts running on your running costs. Also, I cannot see the oversupply of flats and unoccupied flats being absorbed for the next 2-3 years, maybe more. In addition, a large number of investors have bought flats on a wholesale basis, i.e. bought in bulk after negotiating very good discounts with the developer, and of course these flats have to come on the market at some point for the investor to free his funds.

Buying land on the other hand, for me, is a much safer bet. One, it is much more affordable. Two, land is less susceptible to drops in value. The value of land is more dependent on the infrastructure and development on it, and the local demand around it. When roads, water and power are added to land, its value increases substantially, irrespective of the state of the property market.

Of course there is also a difference in the risks and process of buying land as opposed to flats. The right paperwork is vital. Ensure that you have a lawyer with the right expertise check out the land for the right titles, plans and permissions. We have our own in-house legal team to do this for our clients. If you are buying

a flat, check the agreements in particular for additional charges, delays in completion, lock-in periods and restrictions on sale.

Finally, there is the question of exit. Buying property as an investment is no good unless you can sell it. How easy will it be to sell the property? As I mentioned above, the current market for flats is quite stagnant, there is not much turnover in the market. Land on the other hand, should be easier to sell, especially if it is in the right location with a lot of economic activity around it. A classic example is Sanand, just outside Ahmedabad. Sanand was only put on the map because of the Tata Nano factory. Since then, the land in the area has gone up multi-fold. If you were lucky enough to have bought early in this area, you will have seen a very healthy return on your purchase.

To close, my recommendation is to buy land rather than flats. For the next few years, you will see better returns, fewer outgoings and maintenance, an easier exit.

About the author

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