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Market Watch

# Residential realty stares at major liquidity crunch

BY KAILASH BABAR, ET BUREAU | APR 03, 2020, 09.20 AM IST

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With limited sales likely over the next few months owing to the [coronavirus](#) pandemic and its impact on the global economy is expected to pose a key challenge for residential real estate's [liquidity](#) and financing options. The segment, except for affordable housing, has already been under pressure generating negative cash flows from operations that has led to higher leverage and increased refinancing risks.

While smaller developers have been resorting to joint ventures and alliances to overcome this challenge over the last two years, they may find it difficult to do so now with even large developers reviewing their growth strategies in the wake of soon-to-be revised global economic outlook. "The bigger worry for the already weak and credit starved residential real estate sector is that it is likely to see increased cash flow gaps and liquidity pressure during the course of the year, as new sales and residential demand may take a further hit on account of the economic fallout from the pandemic," said [Harsha Sodhani](#), Associate Director, India Ratings and Research.

According to her, new Sales and collections from already sold units could also slowdown; as housing finance companies as well as banks become more selective and tighten their home loan disbursements criteria in anticipation of impending economic slowdown and associated job losses. Refinancing risk for the developers could further increase as lender's risk aversion to the sector increases. The widening cash flow gaps and its impact on debt, interest servicing may prove to be an existential crisis for smaller developers who do not have new project funding lines, balance sheet liquidity or support from diversified operations.

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Industry experts are of view that the change in business environment led by scanty demand pattern and financing squeeze would result in new alliances and partnerships. “For this sector, there will be a focus on seeking patient capital with the new business scenario that will emerge post this crisis. Developers that need liquidity will have to direct their attention to institutional investors, who will be in the driver’s seat while investee companies or developers will focus solely on execution,” [Gautam Saraf](#), Managing Director - Mumbai, Cushman and Wakefield.

COVID-19 has created is an additional challenge for the residential sector that has been facing various other issues including slower sales, debt and inventory pile up. Institutional investors will also be selective while picking up opportunities as not all projects and developers may not make the cut. “There will be opportunities over the next 9-12 months and judicious deployment of capital can offer good returns over a 3-4 years’ horizon. But, most institutional investors will prefer alliance with developers who have execution track record and debt repayment history, similarly projects closer to completion will be favored by them,” said [Subhash Udhvani](#), founder of real estate-focused boutique investment bank, Elysium Capital.

The [Reserve Bank of India](#)’s (RBI) announcement last week to cut repo rate by 75 basis points, offering deferment on term loan and working capital loan payment means cheaper home and construction loans as well as easing of cash flow pressure on developers. However, housing sales are driven by sentiment and future liquidity confidence among buyers and would be affected for some time.

If the lockdown across the country or even in few key markets continues, experts believe, access to project funding lines and unutilized overdraft limits is expected to help developers in meeting the limited construction spend and project related fixed expenses that they would have to incur over the next two months. However, developers in lower strata will be under stress as they may not have such avenues available. Also, given that the sector has limited reliance on capital market instruments, where such moratorium is not available, liquidity is likely to be conserved for the next two months.

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