

Is it the right time to buy real estate stocks?

Over the past one month, BSE's real-estate index has gained 12% on the back of GST rate cut and sops



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Real-estate sector has been reeling under multiple troubles — muted demand, liquidity issues, rising cost of finance and regulatory change (RERA, cap on set-off of losses for multiple properties under IT, GST and so on). Issues such as sizable project launches without approvals and slower demand have led to significant cash-flow mismatch for developers. There has been a delay in completion of projects across the industry resulting in very high inventory levels in major micro markets. Land aggregators and developers are clearly being differentiated, given higher upfront cost of project approval, compliance under RERA and lack of buyer confidence. In the process, there is clear shift of demand from unorganised to organised/large developers.

While developers with execution track record and strong balance sheets would emerge as key winners in the medium to long term, there seems no respite in the near term. The sector will continue to be under pressure in the short term till the inventory levels decline.



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We are not very bullish on real-estate prices but believe that the transaction volumes are close to bottoming out in the sector. For the high-quality developers, the opportunity to gain market share is immense. This is primarily because regulations such as RERA, GST and so on are favouring developers with balance sheet strength and good reputation. For the sector per se, falling interest rates could be an additional tailwind. Overall, this sector typically does well when the sentiment around the economy, interest rates and job creation is healthy. From a cycle viewpoint, the sales level in the sector has been low for past four to five years and hence further downside looks remote.

We believe the stocks of leading real-estate developers are attractive since they can greatly improve their market share, which is quite low currently in a fragmented sector. The opportunity size is very big and developers with good execution capabilities and healthy balance sheet can create much value. 📈