

PERSPECTIVES

NEPSE 463.45 ▼ -4.15

DOLLAR Rs73.96 ▲ 0.36

EURO Rs91.10 ▲ Re0.70

YUAN Rs 10.85 ▲ Re 0.08

GOLD Rs30,650 ▼ Rs0.00

OIL \$79.19 ▲ \$0.33

Will the bubble burst?

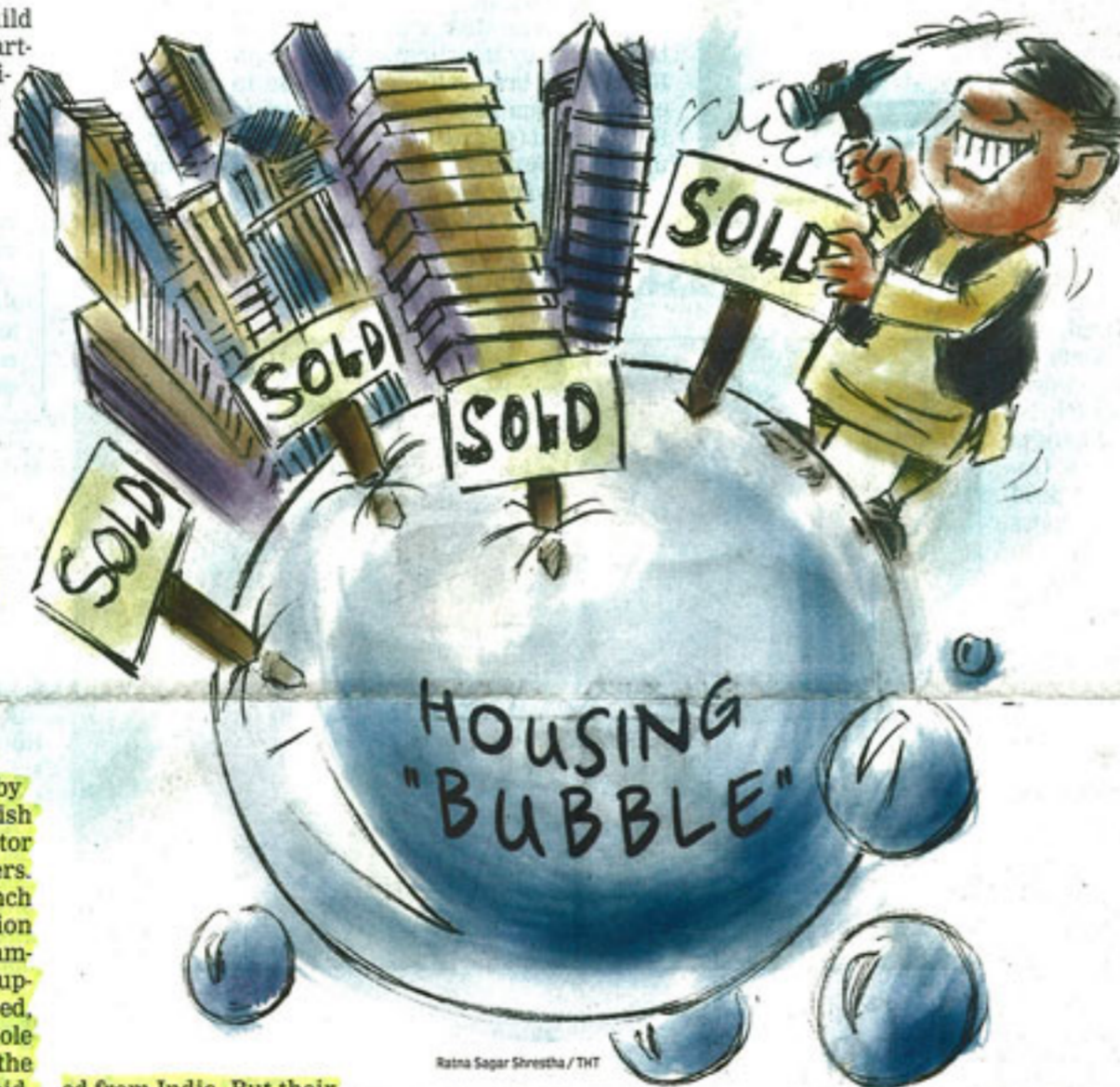
What's the real scenario in the once booming real estate sector?

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People wanting to build homes or buy apartments now find it difficult to get a home loan or simply cannot afford the outrageous interest rates. Housing developers, on the other hand, cannot find funds for their projects and are unable to find customers as they are monetarily handicapped since banks have closed their doors.

"Just six months ago, the real estate business was booming because banks were offering attractive interest rates and 80 to 90 per cent of the total cost of the property was being paid by banks," says Ashish Garg, executive director of Clean Developers. The liquidity crunch and NRB's declaration has changed the dynamics of demand and supply. Both have reduced, especially drilling a hole in the pockets of the middle and upper-middle class, who are highly dependent on bank funding.

"Housing is a basic necessity. Therefore, there will always be a demand for it. Rather than the sales, it is the competition that has gone down," says Garg. There is still a niche market for the high end segment (above one crore). This demand is due to cash in hand, idle cash and remittance. "We have marginally increased our prices," says Garg. Prices of cement, steel and other raw material have not decreased, given that they are import-



ed from India. But their demand has definitely decreased. However, the supply of labour has decreased due to labourers migrating overseas, mostly to Gulf countries. "Kathmandu has reached a stage where it has to grow vertically and not horizontally. The city has become a hub for people from all over the country and the infrastructure is insufficient to accommodate all of them," says Garg.

"We do not encourage investment in real estate, as it does not generate employment nor does it boost the country's economy," says Ad-

hikari. According to him, the supply of apartments are not demand driven and this is risky investment for the banks. Moreover, he is of the view that Nepal is not culturally, legally and financially apposite to the trend of housing and apartments — culturally, Nepalis are not used to living in clusters; legally, laws are still being formulated for cluster living in apartments; and financially, average Nepalis cannot afford the additional costs and maintenance charge that comes every month without fail, not to mention the burden of loan.

"While making the monetary policy after the budget is declared, we will discuss the issue regarding separating home loans from real estate. We are optimistic about this differentiation, as we do not have a right to curb the desires of the common people to buy or build a home, and we have the responsibility to create an environment for economic

growth," says Adhikari. Customers who have taken home loans to build houses have no problem in paying monthly installments to banks as they have an income to pay from but investors speculating and investing in lands, who have no other source of income will face problems.

Even without issuing loans, decreased deposits and NRB intervention, banks are running smoothly. With repo market, short term lending by NRB and remittance, liquidity is being injected.

"The worst case scenario could arise in the next fiscal year. Banks could seize properties and the prices could fall by 50 per cent but again this is very unlikely to happen," says Sashin Joshi, president of Nepal Bankers' Association. NRB is positive that the system will not collapse but could get affected a little with few banks suffering on their profit margins.

Six months back the real estate sector was booming with banks heedlessly giving out loans for everything related to homes and real estate. Investment in real estate was attractive, since the returns were alluring and immediate. Business was at its peak. But all that changed in December 2009 with the central bank stepping in to check the artificial and alarming bubble. "Although intervention was late, it was just in time to save the economy from a major crisis," says Bashu Dev Adhikari, director of banks and financial institutions regulation department at Nepal Rastra Bank (NRB).

As most banks were invested hugely in an unproductive sector, NRB had to regulate credit policies. Remittance and deposits were high, interest rates were low and there was a steady credit flow. However, the money flow was not seen in the economy, as all the credit was being invested unproductively in real estate.

While banks welcome the intervention, they are now pushed to decrease their credit portfolio for real estate and housing to 40 per cent as set by NRB. There are very few banks giving out loans in the present scenario. However, these rates are a far cry from the 6.5 per cent which was available six months ago.

The sectors receiving the hardest blow are housing and apartment builders and customers.