

Land Bill: Home prices could go up by 10-30%

SAUMYA PRAKASH | DC
BENGALURU, SEPT. 30

The draft rules of the new land acquisition law are expected to be notified early next year. The law, which replaces the British-era Land Acquisition Act, 1894, is set to push home prices up as the cost of land acquisition will increase, hitting an already sluggish realty market, real estate developers say.

Ravindra Pai, MD, Century Real Estate, said the extra cost of land acquisition will be passed on to customers. "Typically, we work with a fixed margin expectation. Any increase in cost is compensated by increasing the selling price," he said.

Industry players say that the government could play a positive role. "They (government) will have to take the initiative and build affordable housing on the outskirts of cities, where land rates are low," said Ganesh Vasudevan, CEO, India Property. "The price bracket for affordable housing will itself increase in conjunction with the escalation in property rates."

While the bill itself could prove a big blow to buyers, the increasing cost of construction due to inflation, liquidity crunch and hardening of interest rates are other factors that will dampen the prospects of the affordable housing sector. "I am expecting a 30-40 per cent

increase in project costs for large scale acquisition of land," said P. Sunder, CEO, HomeShikari.com. "Roughly there will be 20 per cent or more increase in net prices to consumers."

With the passage of the Bill, the process of acquiring land will become slow as infrastructure projects involve largescale land acquisition, contends Mr. Vasudevan. "Along with an escalation in the project cost, the requirement of consent from 70-80 per cent affected families will drastically increase the time frame of the project, along with more litigation and projects on hold," he said. "Getting funds from banks and other financial institutions will also get tough due to increased risk. One can also expect political play and involvement of middle men, resulting in delays and unnecessary controversies."

The Bill will impact even the luxury segment, which could see fewer project launches.

"While a 10-15 per cent increase in prices may be expected in the premium and luxury segments, there is an excess of inventory already. With demand tapering due to the slowing economy, falling rupee and short-term uncertainty, it is unlikely that developers will be able to increase their prices for this segment and be able to sell," says Mr. Sunder.