Financial aid to help resolve stressed developers but demand side issue still unaddressed: Brickwork Ratings

Brickwork Ratings, 07 November 2019, Mumbai: The Government of India’s announcement of establishing an Alternate Investment Fund (AIF) worth INR 250 billion aimed at priority debt financing for the completion of stalled housing projects that are in the affordable and middle-income housing sector, will go a long way in providing the much-needed relief to the developers having funding requirements. It will also to provide relief to homebuyers having investments in these projects. However, on a broader level, this may not completely address the urgent need of the sector that is plagued by huge unsold inventories.

The need of the hour is to stimulate demand among homebuyers, which itself would then provide cash in the hands of developers to finish off other stalled projects. In fact, completion of these projects will only add to the already huge pile of unsold apartments to the tune of ~4.5 lakh units (Source: Knight Frank) though this problem is lesser in the affordable housing segment. The answer may lie in taking a leaf out of the negative interest rate mortgages being handed out by banks in Europe. We could look at offering home loans on completed projects or projects getting completed in the next six months at discounted rates of 2-4%. The subvention will need to be provided by the lenders in these projects and the government. The moral hazard of bailing out the developers can be avoided by linking the subvention to price cuts being offered by developers to get their skin in this scheme.

In lieu of the discount provided by lenders, the developers will get prime borrowers resulting in low default rates. This will result in the developers otherwise in default or likely to default to see an improvement in their credit profile which will result in resolving the stress. With this, the government will also address the issues related to growth in the linked sectors ultimately kick-starting the economic growth engine.

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