

# **Research Analysis Report**

on

Chandigarh  
Real Estate

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Impact of Increasing  
Home Loan Rates on  
Real Estate in  
Chandigarh Tri City

## Introduction

The whole country is waiting in anticipation what would be the next move by RBI in an attempt to put a check on the inflation. Whether the repo rates and the CRR will be hiked further or stabilize. This question is on everyone's mind. This move of RBI is followed by HFCs (Housing Finance Companies) and commercial banks increasing their lending rates. The focus of this study is to determine the impact of these increasing lending rates on the real estate with close reference to Chandigarh tri city and the suburbs.

## Increasing Home Loan Rates

The home loan rates (fixed) of different banks hover around between 10.5%-12%. With every now and then the banks revising these rates following the revision of CRR and repo rates by RBI (Reserve Bank on India). As RBI drives the market the future of lending rates it is still difficult to predict whether these rates would increase further or stabilize. In the last 3-4 months almost 1%-1.75% increase has been there in the home loan rates by different banks and HFCs.

The real estate boom in the country seems to start getting shock waves with the loans getting more expensive. This adds to the already sky rocketed real estate prices throughout the country. Now it has become more difficult for a middle class salaried employee to afford a house of his own. He is left perplexed and confused in all this ever increasing tsunami of real estate prices which are eagerly waited to come down.

Now the EMI (Equated Monthly Installments) for the costumers have increased which are going to extract a major part of their salaries as on an

average around 60%-70% of the loan seekers are salaried class. Maximum buyers of a residential property say around 80%-90% prefer loans through the banks and Housing Finance Companies. Earlier the loan seekers were both the speculators/investors and the end consumers. The end consumers would apply for loans as they could not afford the high priced property on their own without financial assistance from the banks, etc. the case with the speculators/ investors was completely different as they would avail home loans to adjust their income as the loan amounts are exempt of income tax.

But with the increasing lending rates the speculators/ investors have been forced to move away from the market. The worst impact of the increasing home loan rates has been on the speculators as compared to the actual buyers. According to the estimate about 70% of the speculators and about 15%- 20% of the end consumers have been affected by this trend of increasing lending rates.

## Reason for this increase in the RoI

The Risk Weightage factor by the RBI has been increased which is a certain percentage of cash being deposited by the banks to the RBI, thus now the banks need to deposit more cash to the RBI. Also the increase in CRR and repo rates by the RBI has forced the banks to increase the lending rates. As the Risk Weightage is directly proportional to the RoI and the CRR is directly proportional to the deposit and lending rates

But in that case the deposit rates have also been increased to make a proportionate mix of deposits and lending and having enough liquidity with the banks and also keeping in mind the profit margin.

The approval to the builders/projects by the banks is dominated by ICICI and HDFC. As these two commercial banks have approved almost 70%-80% projects in the Chandigarh tri city region.

## Types of Home Loans

The home loans can be of several types like loan for purchase of residential plot/flat/house, construction and renovation of a residential house/flat. Some of the banks also provide loans against property.

## Procedure/Formalities/ KYC (Know Your Customer) norms:

### 1. Salaried

- 2 month Salary slip
- 2 years Form 16 and Income Tax returns
- 6 months Bank statement

### 2. Self employed

- 3 years Balance sheet/ Profit and Loss Account
- 3 years Income Tax returns
- 6 months Bank statement

### 3. Residence Proof (Any One)

- Telephone Bill
- Electricity Bill
- Passport Copy
- Ration Card
- Rent / Leave-license agreement copy

### 4. Identity Proof (Any One)

- Telephone Bill
- Electricity Bill
- Passport Copy
- Ration Card
- Rent / Leave-license agreement copy

## Commercial Loans

Talking about the commercial loans the banks have a restricted Loan to Value (LTV) which indicates that the loan percentage is lesser than the home loans. For instance if a bank provides around 80%-85% of the registered amount of a residential property to a home loan seeker then the commercial LTV will be around 50% - 60%.

The RoI in these types of loans is quite higher as compared to the home loans

## Future Trends

It is expected that in the future the BPLR will stabilize with minor 0.25-.50% changes. The property prices are expected to remain stable for another 4-5 months before any further prediction can be made. Keeping in view the demand and supply mix the prices have been stable without any appreciation since last 8-9 months. As the demand for residential properties in Panchkula, Mohali and the suburban areas like Zirakpur, Dera Bassi, Baddi, Kharar is comparatively less than the supply.

But this demand and supply is expected to match in the next 2-3 years.

**Table : Home Loans by different banks**

Banks	Loan		Loan Period	
	Floating	Fixed	Floating	Fixed
HDFC	11.25% below 1 cr 11% above 1 cr	13.25%	18 yrs	18 yrs
Punjab National Bank Housing Finance Ltd.	10% upto 10 lakhs (20 yrs) 9.75% above 10 lakhs (20 yrs)	11.5%	20 yrs.	-
Centurian Bank of Punjab	a) Salaried: 10.75% b) HL Gold: 10.50% c) HL for self employed: 11% d) No income group: 11.50%	-	-	-
State Bank of India	10.75%	12.25%	5-20 yrs	10 yrs
IDBI	10.5%	11.5%	1-20 yrs	3-5 yrs
ICICI	12%	13.25% to 13.75%	20 yrs.	
Bank of Baroda	10.5%	12%	15 yrs.	15 yrs.
HSBC	10.25%	11%	20 yrs.	20 yrs.
LIC Housing Finance	10%	10.5%	5-20 yrs.	2 yrs.
UTI	10.5%	12%	salaried 20 yrs., Business 180 months	20 yrs.

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