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Real Estate - Market Rate VS Circle Rate

It is extremely important for a buyer to know both market and circle rates before finalizing a property



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It is often the case that people who are financially knowledgeable prefer to invest in real estate rather than in equities, possibly because the former is much easier to comprehend. That said, real estate too has its own technical ambiguities and jargons. For example, you must have heard your real estate broker talking about the increase in circle rate? You might know that it will negatively impact your budget, but it is important to understand the differences between the market rate and circle rate for you to take an informed decision.

What Is a Circle Rate?

Circle rate is the minimum price at which the sale or allocation of a plot, built-up house, apartment or a commercial property can take place. This rate/price is decided by local development authorities or the state government. There can be different circle rates for different localities within the same city. The purpose of setting the circle rates is to put a check on speculation of property prices as the real estate market is opaque and often does not offer a correct price index.

As the circle rates are not reviewed regularly to keep them in line with the market rates it is seen that the circle rates are invariably lower than the actual market rates. Hence, the circle rate is just an indication of the market condition and is not the actual price of the property.

What is a Market Rate?

Market rate is the price that a buyer pays for a property and is the real value of such an asset for a transaction between a buyer and a seller. Market rates are decided based on the seller's expectation of price and the buyer's propensity to pay. It is a price range arrived at by demand and supply looking at actual transaction rates in a place. A location with low supply but high demand will certainly ask for higher rates when compared to other areas.

Circle rates and market rates have limited impact on each other. The circle rate is always lower than the market rate but a noticeably higher variance between them shows a lag and is the prime reason for black money transactions in the Indian real estate domain.

Why is it Important to Know?

Usually, when a property is sold, the stamp duty and registration charges are paid by the buyer. It has been often contested that a higher circle rate leads to a

fall in the rate of transactions. As the gulf between the circle rate and the market rate reduces more and more authentic buyers with legitimate money start entering the market. Although in such a scenario the transaction velocity decreases, a lesser amount of black money gets parked into real estate assets.

Reviewing the circle rates every 3 months or once in six months will keep the market rate and circle rate more in line with each other. At the same time, the state government will also make higher tax collection from real estate dealings as stamp duty is paid on a circle rate which is in line with the market rates.

However, this will affect the real estate buyers with the added burden as they will have to spend more on higher stamp duties, resulting in slightly higher transaction prices and overall cost of ownership. But real estate gurus believe that revising circle rates will help in removing the black money invested in the real estate and move the market prices in a more rational and positive direction.

It is therefore extremely important for a buyer to know both market and circle rates before finalizing a property. Knowing the market rate would help you determine your buying capability and it also indicates the degree of appreciation in a given area. Since loans are given based on sales deed which is closer to the circle rate, a lower gap between the circle rate and market rate will be beneficial.



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Ranjeet is a professionally qualified Chartered Accountant (CA) and Cost Accountant (ICWA). He brings in a rich experience of 12 years in Banking and Financial domain, from organizations like Religare Housing Development Finance Corporation, ICRA, R Systems, Polaris Software and IndusInd Bank. He played a critical role in launching Affordable Housing Finance Business at Religare and took it to a significant scale and book size. With a strong understanding of the under-served segment and expertise in Credit Under-Writing, Process Management, Policy Formulation, Risk Management and Product Development, Ranjeet aims to create a high-quality portfolio at ART Housing Finance within the acceptable risk.