

Real Estate in Indian Context-Opportunities and Challenges

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Abstract

The real estate sector in India assumed greater importance with the liberalization of the economy. The increase in business opportunities and labor migration led to rising demand for commercial and housing space. The real estate sector in India is presently worth USD 15 billion and it is growing at a phenomenal rate of 20% per year. This sector is the second largest employer in India, after the agricultural sector. Having attained maturity, the real estate sector is attracting huge investments, especially (Foreign Direct Investment) FDI. In the years ahead, the construction industry in India has to overcome various challenges with respect to housing, environment, transportation, power and natural hazards. Technocrats associated with the Indian real estate industry need to employ innovative technologies and skilled project handling strategies to overcome these challenges. The outstanding performance under demanding situations in the past will give confidence to the Indian real estate industry to bring overall development in the infrastructure of the nation

Keyword: FDI, Infrastructure, Real Estate and real estate value.

Introduction

The real estate sector in India assumed greater importance with the liberalization of the economy. The increase in business opportunities and labor migration led to rising demand for commercial and housing space. At present, the real estate and construction sectors are playing a vital role in the overall development of India's core infrastructure. The real estate industry's growth is linked to developments in the retail, hospitality and entertainment industries, economic services and information technology. The Indian real estate sector has traditionally been dominated by a number of small regional players with relatively low levels of expertise and financial resources. Historically, the sector has not benefited from institutional capital and has traditionally tapped high net-worth individuals and other informal sources of financing, which has led to low levels of transparency. This scenario underwent a change with in line with the sector's growth. This paper presents a view of the operations of Indian real estate sector and the challenges faced by the sector and its prospects.

Review of Literature

Singh Vandana (2009) concluded her research paper with the remark that the Real Estate is a very wide concept and it is highly affected by the macro-economic factors like GDP, FDI, per capital income, interest rates and employment in the nation. The most important factor in the case of Real Estate is location which affects the value and returns from the Real Estate. India needs a stronger capital market base for property financing.

Araghadeep Laskar and CVR Murthy (2011) state that in construction industry use of various new technologies and deployment of project management strategies has made it possible to undertake projects of mega scale. In its path of advancement, the industry has to overcome a number of challenges. However, the industry is still faced with some major challenges, including housing, disaster resistant construction, water management and mass transportation. Recent experiences of several new mega-projects are clear indicators that the industry is poised for a bright future.

According to Singh Pradeep (2011), in a giant industry like construction, there are many strains due to peculiarly irrational risk-sharing arrangement coupled with its competitive character. Today there are increasing disputes and differences arising out of contractual relations between contractors and owners whether owners are individual, firms or public. Construction contracts have very sensitive arrangement of weaving many different agencies to perform various obligations to execute the job. He has identified the following four categories of factors that lead to dispute and delay in construction projects: (1) Changes include Additions, Alterations, Variations, and Deletions. (2) Delays and suspension. (3) Different Site conditions. (4) Unjust enrichment by owners.

According to Drake MacDonald (2011), like many emerging countries, India has a problem with faulty construction. Sadly, the primary reason there are so many poorly constructed buildings in India

is due to greed. However, what makes matters worse is that greed is not isolated to one particular segment such as builders or workers, but to the construction industry in India as well a whole. The government is guilty of greed, as officials often pocket bribes in exchange for awarding contracts or looking the other way. Clearly the problem in India is not that there is a lack of regulation, but merely lack of enforcement for existing regulations.

Iyer K. R. (2011) remarked in his report that India today is facing a unique challenge of dealing with high inflation, while continuing high growth. Boosting of supply in all industries, including incentivizing of infrastructure development, streamlining of regulatory process to reduce time and costs for business and tax incentives for low cost housing are all important areas which will help reduce inflation and also enable growth rates to be maintained.

Heamanta Doloi (2012) has identified factors that cause delay in construction projects in India. From the factor analysis, most critical factors of 6 construction delay were identified as (1) lack of commitment; (2) inefficient site management; (3) poor site coordination; (4) improper planning; (5) lack of clarity in project scope; (6) lack of communication; and (7) substandard contract. Regression model indicates slow decision from owner, poor labor productivity, architects' reluctance for change and rework due to mistakes in construction are the reasons that affect the overall delay of the project significantly. These findings are expected to be significant contributions to Indian construction industry in controlling the time overruns in construction contracts.

According to G. K. Kulkarni (2012) construction workers are exposed to a wide variety of health hazards at work. The exposure differs from job to job. The work related diseases form 5% to 20% of work force. He identified some common problems of construction workers to be physical injuries, hazards from harmful chemicals, dusts, mists, gases and biological hazards such as malaria, dengue, etc.

Bansal.A, Sirohi R and Jha Manish (2011) in their article explain that the real-estate sector has playing a crucial role in SEZ (Special Economic Zone) and forming of township. As also, it helps the town to become cities. They also explain the concept of "green" building, adopted by the sector, testifying to a significant emphasis on sustainability consideration. They explain the infrastructure development is just before parallel to the real estate developments.

Objective

The paper aims to examine the present scenario of real estate in India. In this broader framework, an attempt has been made to achieve the following specific objectives:

1. To study the fundamental factors affecting the real estate value.
2. To present the constraints of real estate investment in India.
3. To offer suggestion,

Rationale of the Study

Policy-makers have become increasingly aware of the fact that sizeable changes and significant periodic corrections in asset prices may lead to financial and macroeconomic instability. No market is continually in equilibrium hence the prices and values differ from time to time. Real estate market is one that is characterized by cycles of booms and busts. These booms or bubbles are sharp price increases not justified by fundamentals. Real estate market remains consistently under- or overpriced for long periods. The length of time involved may be related to the period it takes for buyers and sellers to move in and out of the market. In the stock market this period is generally short whereas in the property market it is relatively long. General trends may, therefore, emerge and if they can be forecasted, they may prove to be helpful in developing future investment strategies. This needs to be studied in depth considering the contributing factors affecting the value of properties.

Present Scenario of the Real Estate Market

At present, the real estate sector is playing a crucial role in the overall development of India's core infrastructure. Every assets class has depreciation value. Investment in property is believed to be the smartest move as chances of loss is negligible. The growth and appreciation in this sector is directly influences the economy of the country. Incase in India if a person having a property of own is a matter of pride, attachment to the property is massive. Also, it is the most profitable investment in India. The growth graph of the Real Estate sector is observed to be rising day by day. The real estate industry's growth is linked to developments in the retail, hospitality and entertainment (hotels, resorts, cinema theatres) industries, economic services (hospitals, schools) and information technology (IT)-enabled services (like call centers) etc and vice versa. The Indian real estate sector has traditionally been dominated by a number of small regional players with relatively low levels of expertise and financial resources. Historically, the sector has not benefited from institutional capital; instead, it has traditionally tapped high net-worth individuals and other informal sources of financing, which has led to low levels of transparency. This scenario underwent a change with in line with the sector's growth, and today, the

real estate industry's dynamics reflect consumers' expectations of higher quality with India's increasing integration with the global economy.

Feasibility Issue in real estate development

1. Market analysis

Total market vs. market segment

The analysis of the total market takes on an aggregate perspective. You should evaluate the space supply, the development of the space demand as well as vacancies and top rents of the market. The analysis of the market segment is focused on a disaggregated market perspective. Take into consideration that you should consider geographic and typological market segments. A differentiated assessment of supply and demand, space, vacancies and the rents of the object-specific rents should be implemented.

2. Location analysis

Consideration of the characteristics of the macro (city or urban center) and micro (site and close surroundings) location of object.

3. Competition analysis

Identification of relevant competitive real estate in market

4. Risk analysis

A risk analysis aims at improving the decision through the identification of both risk aspects that can be influenced and those beyond control. You need to consider:

- a. Development risk (completion, cost overrun, etc)
- b. Valuation risk (location, market, financing risk)
- c. Liquidation risk
- d. Change in value risk (location quality, change in trends and demands)

Draft Real Estate (Regulation & Development) Bill 2011

The Bill aims at promoting transparency and accountability in the real estate sector, and proposes to create a "Real Estate Regulatory Authority" in each of the states. The draft guidance of the Bill also possesses provisions that reduce the risk of a title dispute. In order to provide respite to end users, the Bill also proposes to make it mandatory for developers to register themselves before launching any projects, comply with the approved plans and refund money to homebuyers in case of any default. In a nutshell

- The Bill mandates the establishment of the "Real Estate Regulatory Authority" in every state to oversee and regulate the real estate sector
- Apart from adjudicating disputes between real estate developers and consumers, the proposed Regulatory Authority will also be responsible for issuing registration certificates for projects that have a size of 43,052 square feet or more
- Before beginning the construction work on plots measuring 4,000 square metres or more, it is mandatory for real estate developers to register with the "Real Estate Regulatory Authority"
- The draft Bill makes it mandatory for promoters to stick to the approved plans and project specifications
- The Bill also proposes to make it mandatory for developers to deposit 70% of the amount realized for the real estate project from buyers in a separate account maintained in a scheduled bank, within 15 days of the realization of the project
- It further specifies that developers would use this deposited amount only for the purpose of developing the property
- In case of any default, the developers will be required to refund money to buyers. Further, if the project gets delayed, the developer is bound to pay interest, at an appropriate rate, to the buyers
- In case the developers fail to adhere to the provisions, they are liable to imprisonment of up to three years or a penalty of 10% of the estimated real estate price of the project
- If developers are unable to comply with the directions of the "Real Estate Regulatory Authority", they would be liable to pay a minimum penalty of Rs 1 lakh daily for each day

Problems faced by real estate industry

The major challenges of real estate industry are-

1. **Raising funds** is the most difficult challenge for the real estate projects. Indian real estate has suffered from sinking inflow of funds in the past year.

2. **Input cost** has been rising steeply due to inflation. Real estate is a capital and labour intensive industry and *rise in cost of construction materials as well as in labour makes it harder for realty developers to reduce prices of the unsold units*
3. **Financing cost** is also on the rise for developers. As the number of defaulter's increases, commercial banks have become more restrictive in lending money to the developers. Developers have to rely on *lending from alternate sources at high rate of interests* which again pushes up property prices. As a result, prices go above the buyer's range, making it difficult for the units to get sold.
4. There is a **huge gap between the demand and supply of affordable homes** across the country.
5. **Speculation in property and land prices** has led to the unreal price appreciation in Indian real estate market. Overpricing has been deterring customers from buying homes and as result there exist a huge number of unsold units.
6. **Lack of transparency** also hampers the Indian real estate. Land encroachment and lack of regulation act as a deterrent to foreign investors looking to invest in Indian realty. *An independent body appraising prices of lands as per international standard is needed in India to bring in the much needed transparency.*

Suggestions

Following suggestions for improving the conditions of real estate industry:

- Ensuring decent working conditions and proper contract systems and providing basic health care for construction laborers.
- Adequate intervention from the government authorities required ensuring the health, safety and welfare of the construction laborers'. More transparent, improve management and adopt advanced construction techniques.
- Though the rules and regulations have been made, sufficient implementation of the real estate rules should be implemented.
- Regional Balanced real estate development policy should adopted to avoid demand supply gap.

Conclusion

In the years ahead, the construction industry in India has to overcome various challenges with respect to housing, environment, transportation, power or natural hazards. Technocrats associated with the Indian real estate industry need to employ innovative technologies and skilled project handling strategies to overcome these challenges. The outstanding performance under demanding situations in the past will stand in good stead and give confidence to the Indian real estate industry to bring about an overall development in the infrastructure of the nation

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