

**CURIOSITY OF INVESTORS AND DEVELOPMENT OF REAL
ESTATE MARKET IN INDIA****Mohd.Ameer**

Research Scholar

S.J.J.T.University

mohdamer.mdn@gmail.com**Dr.Sucharitha**

Associate Professor

HITS, Hyderabad

scharitha@gmail.com**Abstract**

The focus of this paper is to study the scenario of the residential segment of the real estate market in India. This paper begins with presenting the global economic outlook and then studies its impact on key housing markets world-wide. It then gives an overview of Indian residential real estate market and identifies the various growth phases and highlights the housing shortage. The real estate sector in India assumed greater prominence with the liberalization of the economy, as the consequent increase in business opportunities and labour migration led to rising demand for commercial and housing space. The real estate sector in India is presently worth USD15 billion and it is growing at a phenomenal rate of 30% 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. Today, real estate in India addresses the demand for built-up space, from a variety of property segments such as offices, residential units, shopping malls, hospitality industry, manufacturing sector and logistics parks, to name a few. The real estate sector is also active in the establishment of SEZs and the building of townships; it is spreading to the smaller cities and underpins their growth. Infrastructure developments closely parallel real estate developments. This paper presents a panoramic view of the operations of Indian real estate sector in various property segments, the challenges faced by the sector and its prospects. This study examines the behavioural factors that influence the Indian Investors to invest in the Real Estate Market. Among the various factors that affect the tendency of investors to invest in the real market, certain factors are greatly influenced the investors at greatest extend while others at least level. From this study it is revealed that motivation from the real estate developers and brokers (mean value- 3.46) is most influencing factor and happening of uncertain events (mean value- 1.75) is the least factor that influences the investors' investment behaviour. In this study, the behavioural factor like over confidence and the hypotheses regarding education, religion were analyzed and found that religious factor influences the Indian investors to invest in the real estate.

Key words: Residential Real Estate, Economic Outlook, FDI, Infrastructure, Real Estate Market, Investment Knowledge, Investment Knowledge, SEZs (Special Economic Zones).



Introduction

The term “real estate” is defined as land, including the air above it and the earth below it and any buildings or structures on it. Among the most basic human needs of food, clothing & shelter, the requirement for housing comes under the need for providing shelter. Real estate is a good opportunity to employ funds for both long and short-term investments. It is safe and provides high yield investment as compared to volatile returns from the stock market and limited returns from bank deposits. Land plus anything permanently fixed to it, including buildings, sheds and other items attached to the structure. Although, media often refers to the "real estate market" from the perspective of residential living, real estate can be grouped into three broad categories based on its use: residential, commercial and industrial. Examples of real estate include undeveloped land, houses, condominiums, town homes, office buildings, retail store buildings and factories. At present, the real estate and construction sectors are playing a crucial role in the overall development of India's core infrastructure. Real Estate in India is one of the most important revenue generating sectors. In every assets are having 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. In case in our India if a person having a property of your own is a matter of pride for him, 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 centres) 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/or 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 as of today, the real estate industry's dynamics reflect consumers' expectations of higher quality with India's increasing integration with the global economy.

Wikipedia, the free encyclopaedia referred real estate as ‘Legal term (in some jurisdictions) that encompasses land along with anything permanently affixed to the land, such as buildings’. In-depth, real estate, which is also defined as the immovable property or even realty is frequently deemed identical with real property compare to personal property. Technically, real estate is not defined by such physical components as land and buildings. Rather, real estate is nearly synonymous with real property, the rights that associated with



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land and together with the fixtures, such as roads and buildings that are permanently attached to the land. The real estate market has been on a growth and expansion phase ever since 2002. The rationale of investment in real estate is to generate the profit return in future when forgoing the present consumption by taking into the consideration of uncertainty and risk.

Objectives

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:

- To study the trends in major global housing markets.
- To study the growth phases of housing in India.
- To understand the national housing shortage.
- To study the fundamental factors affecting the real estate value.
- To present the future constraints of real estate investment in India.

Review Of Literature

In the field of real estate various research article has made. Among those articles, this section reviewed some of the articles.

R.A. Nagy and R.W. Obenberger (1994) indicate that the recommendations of family members and friends impact on the investment decisions of investors.

K. Byrne (2005) explains that investors take better investment decision through the improved the investment knowledge and experience. The investors can accurately perceive the risk and the return accruing from the investment portfolio.

Bharat Mittal, 2007 Indian real estate investment area has shown tremendous progress over the last few years with the global and local factors. With the growth and expansion of the real estate market, other areas got experienced the growth which created the growth of economy.

Gill and Biger (2008) also indicate that investors' tendency to invest capital is positively affected by their own perceived knowledge of neutral information. Thus, investors do not rely on a single integrated approach, but rather on many categories of factors such as price movement in the real estate market and current economic indicators e.g., business cycle, GDP, etc.



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Singh V and Komal (2009) explained in their article about the investment in India for property or industry use. And also they divide this sector into three division, under 1st one they explained the fundamental factor are affecting the real sector value like demand, supply, property, restriction to use and site characteristics. Under the 2nd and 3rd one, they explained the causes and constraints to the present real estate boom respectively in India. They also present the suggestion and future prospects of real estate in the country

Alfredo and Vicente, 2010. Investment behaviors are defined as how the investors judge, predict, analyze and review the procedures for decision making, which includes investment psychology, information gathering, defining and understanding, research and analysis. The whole process is called "Investment Behavior".

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. Their paper presents a panoramic view of the operations of Indian real estate sector in various property segments, the challenges faced by the sector and its prospects.

Gill,A,S.P Sharma, H.S Mand, N. Mathur, 2012.The globalization and the emergent of Multinational Corporation in India results to the growth of real estate market and economic growth. Moreover, growth of population, rising in income level, rapid urbanization factors influenced to the growth of Indian real estate market. Since the Indian real estate market is emerging market in under developed economy, the role of real estate investors' play and vital role of Indian economy.

Real Estate Market Concept in India

Indian real estate has seen an unprecedented boom in the last few years. This was ignited and fuelled by two main forces. First, the expanding industrial sector has created a surge in demand for offices building and dwellings. The industrial sector grew at the rate of 10.8 percent in 2006-07 out of which a growth of 11.8 percent was seen by the manufacturing sector. Second, the liberalization policies of government have decreased the need for permission and licenses before taking up mega construction projects. Opening the doors to foreign investments is a further step in these directions. The government has allowed FDI in the real estate sector since 2002. With increasing sophistication of the real estate market in India, the need for valuation systems and practice becomes extremely acute, particularly in this large country of sub-continental proportions. This need becomes even more important in the evolving economy of India which has embarked on the overall policy of liberalization with foreign direct investment and entry of several players in the market. Concomitantly, the

mortgage housing finance market for home ownership has also been maturing in India and this presents its own issues for a standardized system of valuation practice.

All these developments over the last 10 years have fuelled a lot of churn in the real estate industry. While developers, builders, finance companies, material manufacturers etc. have scaled up their operations to match global standards in terms of quality and delivery, the real estate valuation sector has remained largely orthodox, disorganized and out of date with modern practices and global standards. With the development of private property ownership, real estate has become a major area of business. Purchasing real estate requires a significant investment and each parcel of land has unique characteristics, so real estate industry has evolved into several distinct fields. Real estate can be divided into three categories: These are

- Commercial,
- Residential,
- Agricultural.

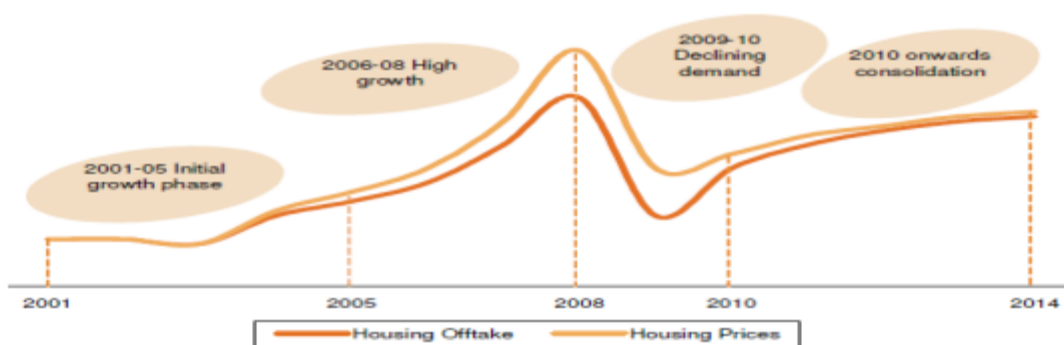
The following factors influence the price and cost of the real estate:

- The physical characteristics of the property,
- The property rights holding the property,
- Geographical area,
- The development rate.

Indian Residential Real Estate Market Overview

Growth cases:

The growth of Indian housing can be divided into 4 cases



Source: CRISIL Research

Fig: 1 Housing growth trajectory in India

Case-1 (2001-2005) was an initial growth phase with stabilizing residential real estate prices following the global recovery post the 'com' bust and 9/11 event. There was steady growth in Indian economic activity and growing urbanization.

Case-2 (2006-2008) was a high growth phase where high demand for residential real estate led to doubling of housing prices. Demand rapidly increased due to India's growing population, accentuated urbanization and low interest rates.

Case-3 (2009-2010) witnessed substantial slowdown and part recovery in demand because of the global economic downturn, which led to a decline in affordability and tight liquidity. The retreat of various real estate investors, accompanied by slowdown in the capital markets, has resulted in oversupply and falling prices.

Case-4 (2011-2014) is expected to remain a consolidation phase after slowdown. Demand is expected to remain strong with capital values witnessing modest rise. This period is expected to witness substantial supply of housing especially in urban areas.

Regulation & Development Real Estate Bill

The Bill, which has been approved by the Union Cabinet on 4 June, 2013, is yet to be approved by the Parliament. It can have significant impact on case-4. It has the following key features:-

- Developers to keep 70% of buyers' funds in separate bank account (escrow account) to ensure that money is used for that project itself and is not diverted for execution of older projects or debt reduction.
- Launch of new projects can be announced only after getting all relevant clearances
- Pre-sale launch without regulatory approvals is restricted
- Developers will have to sell property based on the carpet area
- According to Cushman and Wakefield, the impact of this bill will be:
- In the short-to-medium term, there could be slowdown in new project launches.
- An upward pressure on prices may be created as there will also be some cost implications as developers wait to launch their projects with due approvals in place.
- Retaining amounts realized from allottees and placing them in banks would affect the financial cash flows for projects, particularly, in metropolitan cities.

National housing shortage

CRISIL Research expects housing shortage to decrease due to the governments thrust on improving rural housing by providing houses to the homeless under various development

schemes and by enabling slum redevelopment programs in urban areas under Jawaharlal Nehru National Urban Renewal Mission (JNNURM).



Source: CRISIL Research

Fig: 2 Housing shortage in India (Case-wise)

In spite of the stupendous growth witnessed in the past 10 years, substantial housing shortage is still prevalent in India. According to CRISIL Research, housing shortage in India is estimated at 78.7 million units at the end of Case-2. The overall housing shortage in India is likely to decline to 75.5 million units by the end of Case-4.

According to a report submitted by a technical committee to the Ministry of Housing and Urban Poverty Alleviation (MHUPA), India's urban housing shortage is estimated at nearly 18.78 million households in 2012. Exhibit 5 shows that besides those living in obsolescent houses, 80% of these households are living in congested houses and are in requirement of new houses. The report also highlights that nearly one million households are living in non-serviceable 'katcha' houses, while over half a million households are in homeless conditions.

Of the total urban housing shortage, nearly 62 % houses are self-owned, while 38 % families live in rented homes. Urban housing shortage is prominent across the economically weaker sections (EWS) and low income groups (LIG) which together contribute over 95% of the total shortage. The shortage among middle income groups (MIG) and above is estimated at less than 5 %.

Macro-economic factors

The year 2012 saw macro-economic factors weighing down the growth of residential capital values across the 10 major cities of India (namely Mumbai, NCR, Bangalore, Kolkata, Chennai, Hyderabad, Pune, Ahmadabad, Chandigarh and Kochi).

Consistent low GDP growth rates since 2010-11 and sticky CPI inflation coupled with high interest rates continued to exert pressure on demand as potential buyers chose to remain in wait and watch mode.

Highlights	Impact
National Housing Bank (NHB) to set up Rs 20 bn & Rs 60 bn to Urban & Rural Housing Fund	Mitigate acute housing shortage by providing low cost affordable houses
1st home loan upto Rs 2.5 mn will get extra deduction of interest upto Rs 0.1 mn taking total deduction to Rs 0.25 mn	Promote home ownership in tier-II & III cities and towns; Encourage growth in other sectors like steel, cement, etc.
Increased fund allocation for construction of urban & rural housing units	Multiplier effect on economy by growth in downstream sectors and increase in employment
Excise duty on marble slabs increased from Rs 30 per sq.mtr to Rs 60 per sq.mtr.	Increase the development cost of the developer which may be passed to the end customer
Reduce abatement rate on flat with carpet area of more than 2,000 sq. ft. or cost more than Rs 10 mn from 75% to 70%.	Luxury house will be more expensive
TDS at the rate of 1% to be charged on the transfer of immovable property where the consideration exceeds Rs 5 mn.	Adverse impact on distress property sales or with minimal gain

Fig: 3 Union Budget (2013-14) impact on Residential Real Estate

The budget was marginally positive for the Real Estate sector (Refer fig-3 for Budget impact on Residential Real Estate).

Future Prospects on Real Estate Industry

The real estate market in India is yet in a nascent stage and the scope is simply unlimited. It does not resemble a bubble that will burst. An unhindered growth for the next twenty years is almost sure. This is because the outsourcing business in India is going in great guns and this entails a huge demand for commercial buildings and urban housing besides improvement in infrastructure. The organized retail market in India is also accelerating with players like walmart, bharti, reliance etc. looking forward to make a foray thus stepping up the demand for real estate. The government must ensure that there is no shortage of funds. SEBI (Securities Exchange Board of India) recent harbinger of permitting real estate mutual funds in both private and public sector will go a long way in attracting funds from small investor who emphasize on certain return. Another impediment that can be eased on the discretion of government is the existing tax laws and other complex regulations relating to multidimensional real estate's such as industrial parks and SEZs (Special Economic Zone).

The findings of the study give a broader insight to investors and to those who involves in real estate market activities which in turn help the investors to achieve desired goal from the investment in the real estate. From the marketing point of view, it will widen the competitive advantages particularly when decide to make a strategic planning on real estate investment.



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The present study exposes wide scope for diversify the portfolio allocation decision for the investors.

Theorem-1:

→ Religion makes no difference in investment in real estate property.

Theorem-2:

→ Education makes no difference in investment in real estate property.

Suggestions for the investors

- Since the real estate developers and brokers are motivating agents to the real estate investors, the developer's guidance and advice based on the past experience and awareness of latest market trends would be helped the investors to decide a better investment decision.
- The comprehensive attempt to provide the behavioral and psychological awareness to realty investors and developers.
- Ensure appropriate asset allocation strategies for successful portfolio management of their clients which may be based on their life stage, emotional risk tolerance and their financial literacy level.
- Provide improved services to help investors to make ideal selection from the portfolio and equipped them to diversify the funds to ensure return from investment. The real estate developers must have complied the business ethics and moral values to strengthen the business activities and the strategies adopted to realize profit.
- The real estate developers and agents are to be frequently communicated with investors, Be ensured personal attention towards investors, provided quality services as promised.

Conclusion

Owing to the amendment in real estate prices and re-aligning of business strategy, as per the ongoing business environment, has resulted in some signs of revival in the Indian real estate sector, in the recent past. A stable political scenario has also boosted confidence in the Indian capital markets, and the overall business environment. This study would help the real estate developers and brokers to understand the factors that influencing the investors to invest in real estate market. The service quality that motivators delivered to investors creates better investment knowledge to them to select ideal investment decision and thus being saved the investors from real estate investment loss and threats.

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E-mail : anveshanaindia@gmail.com, **Website :** www.anveshanaindia.com



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