International Journal of Engineering Researches and Management Studies

STATE OF REAL ESTATE IN INDIA

Chirag Gupta[*1] and Aditya Arora[2]
[*1,2]Faculty of Management Studies, Delhi (University of Delhi)

ABSTRACT

Real Estate is considered as the backbone of any economy. Indian real estate sector has witnessed sluggish growth years in recent past. Declining sales and mounting debts coupled with policy paralysis witnessed during the UPA-2 regime played havoc for the sector. However, things changed for the better in early 2014 when the Narendra Modi government came to power at the Centre with a thumping majority. This led to a boost in investor confidence coupled with renewed interest from key stakeholders. The government has unleashed a lot of reforms in the last few months to give a fresh impetus to the sector.

Keywods:- *Indian Real State.*

I. INTRODUCTION

In the year 2015, Indian real estate sector witnessed regulatory changes that included relaxation of Foreign Direct Investment (FDI) laws and the Union Cabinet approving the much awaited Real Estate Bill. Experts believe that the rate cut of 50 basis points by the RBI in its September 2015 monetary policy review and the seventh pay Commission released by the government panel will boost the real estate sector in terms of increased demand and supply. A major impetus came in the form of the notification by the Securities and Exchange Board of India (SEBI) on the Real Estate Investment Trusts (REITs) regulations that paved the way for introduction of an internationally acclaimed investment structure in India. The budget presented by the Finance Minister in 2015 provided tax pass through status to the REITs through necessary amendments to the Indian tax regime and increased budgetary allocation towards infrastructure development projects. Prime Minister Narendra Modi's foreign visits have helped India attract more FDI by globally positioning India as an investment destination and improving India's diplomatic and trade relation. The plan of the government to invest in development of smart cities spread across the country is expected to provide a long term boost to real estate sector of the country in future.

India's office space absorption during 2015 increased to approximately 35 million sq ft – second-highest in the country's history since 2011. The demand for office space in 2011 came from occupiers taking advantage of low rents due to the global financial crisis. This time, it was the result of corporates implementing their expansionary plans due to optimism in the economy. The demand for office space was mainly driven by IT/ ITeS, e-commerce, start-ups and large consulting firms. Players in many other sectors like FMCG, BFSI, manufacturing, telecom and pharma did not come into the market - however, this is expected to happen in 2016 and 2017. Rents rose across Indian cities in 2015. The pace was faster in the secondary business districts (SBDs) and certain peripheral business districts (PBDs) of tier-I cities than in the established central business districts (CBDs).

With several positive regulatory changes taking place, the sector is expected to grow at a fast pace in 2016. However, the real estate sector as a whole will have to focus on faster implementation of projects and on-time deliveries. Developers will have to also improve the quality of construction to cope with the growing expectations of customers and investors. The impetus on BTS (Built-to-Suit) real estate is expected to increase this year.

This positive upturn in the real estate sector is expected to boost a demand in the steel as well as the cement industry of India. The steel industry reeled in 2015 due to incessant dumping of steel by China in the Indian economy. The Government imposed anti dumping duty to save the domestic steel industry. However, this growth in demand due to real estate is expected to provide the much needed boost to steel industry.

II. REGULATIONS

The key highlight of the recent regulations implemented by the Government of India in real estate sector is the Real Estate (Regulation and Development) Bill, 2015. The key points of the Bill are:

1. The Bill is applicable for commercial as well as residential real estate projects. It also advocates the establishment of 'Real Estate Regulatory Authority' in States to regulate real estate transactions
2. The Bill ensures mandatory disclosure of all registered projects, which includes details of the promoter, project, layout plan, land status, approvals, agreements along with details of real estate

IJERMS
International Journal of Engineering Researches and Management Studies

agents, contractors, architect, structural engineer by the promoters to the customers through registration of real estate projects as well as with the Real Estate Regulatory Authority

3. The Bill has also made it mandatory for project owners to deposit 70% of the amount raised from customers into an escrow account in a scheduled bank within a period of 15 days to cover the construction cost of the project for timely completion of the project
4. Another major provision in the Bill is the inclusion of equal rate of interest to be paid by the promoters and buyers in case of default or delays. This ensure that the rates of penalty paid by buyer on default of a payment is equal to the penalty paid by promoters in case of a delay in the project
5. The Bill also specifies that promoters are barred from changing plans and design without the consent of consumers and envisages establishment of fast track dispute resolution mechanisms for settlement of disputes.

Another major development happened on 26 September 2014 when SEBI notified the REITs regulations, thereby paving the way for introduction of an internationally acclaimed investment structure in India. In the Financial Budget of 2015, the Finance Minister made necessary amendments to the Indian taxation regime to provide the tax pass through status, which is one of the key requirements for feasibility of REITs. REITs provide tax transparency. This means that the REIT does not pay any corporate tax in exchange for paying out strong, consistent dividends. Rather, taxes are paid by the individual shareholder only. Further, considering that the listed REITs will be registered and regulated by the SEBI and adhere to the highest standards of corporate governance, financial reporting and information disclosure, the REITs will provide operational transparency.

The year 2015 also saw the dust settle on the widely debated The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act. According to The Economic Times report dated 25 September 2015, the much needed clarity has increased the rate of execution of many infrastructure projects.

III. FINANCES

According to a report by Indian express, rising debt is indeed a problem for real estate. Their report on 20 real estate developers, the interest expense has risen nearly 10% in FY15 over FY14. The operating income have fallen down nearly 12% in FY15 over FY14. This has created a vicious circle for them, as the newer launches get delayed due to paucity of funds from external sources and internal financing gets reduced due to lower operating incomes. Fall in reduced demand has prompted developers to take actions like asking home-buyers to pay only 20% cost upfront while rest to be at the end of construction. This has resulted to piling of debt.

Developers major sources of debt are - loan from banks and High Net Worth Individuals. While the financing by banks is cheaper, the interest rate depends upon the creditworthiness of the developer. This interest rate should be around 12-18%. The rates can be much higher for developers who are at great risk of default. Loans from high net worth individuals are expensive and are in upwards of 20% p.a.

In-house is supported with better technology and less tangled legal system. India is yet to see a good use of in-house banking while developed nations are making a good use of it. With passing time, this may seem a good option to finance projects and hence be a less pressure on the traditional forms of financing as already discussed.

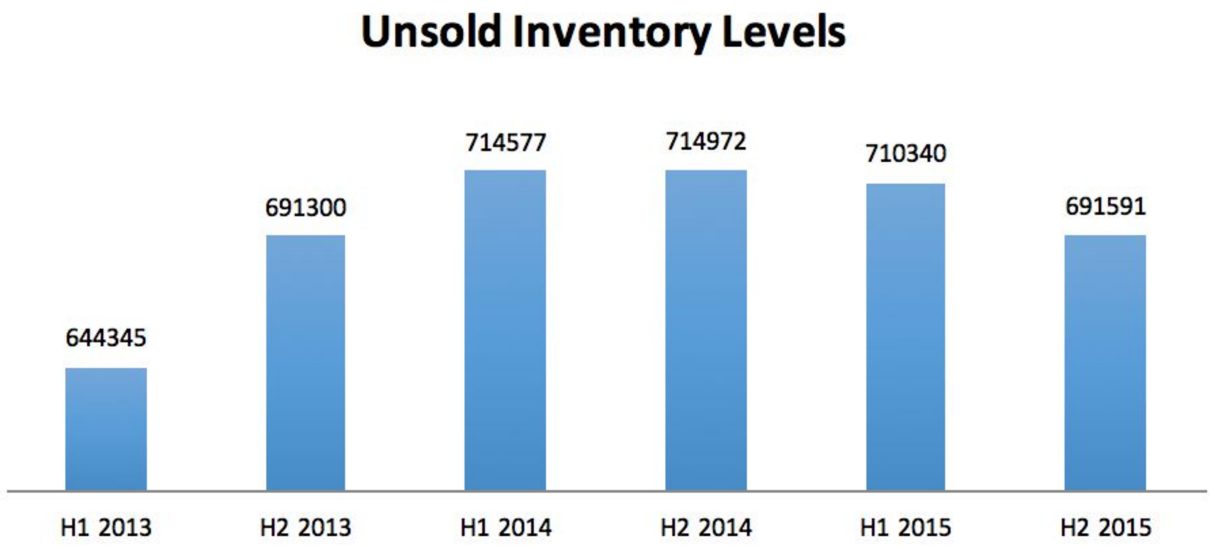
Better GDP growth with lower inflations is expected to bring down the current interest rates which would be a win-win since developers would be able to loan at a cheaper rate and their would be larger interest from home-buyers. But this is still clouded by the fact of NPA rise in banking industry. This has been visible from the fact that the central bank has reduced the key rates several times in the past 2 years but there has been hardly any benefits passed by banks to the consumers.

The Indian banking industry is witnessing a turmoil due to increased pressure from Reserve Bank of India to clean up their balance sheets. As a result, almost all banks have witnessed a rise in their Non-performing assets. Many banks have shown deep losses in the current quarterly results.

ISSN: 2394-7659
IMPACT FACTOR- 2.785

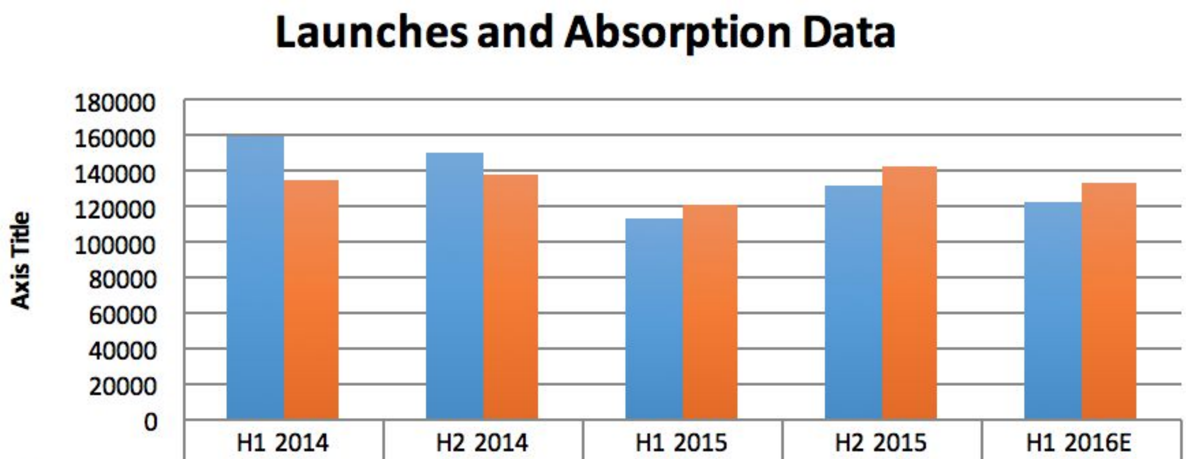
International Journal of Engineering Researches and Management Studies

IV. INVENTORY



Source: Knight Frank Research

The unsold inventory is seeing a decline, which seems to a be a good, but is a result of decreasing newer launches as can be seen from the table below.



	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016E
Launches	159259	150471	113499	131445	122402
Absorption	135644	138165	121051	142671	133556

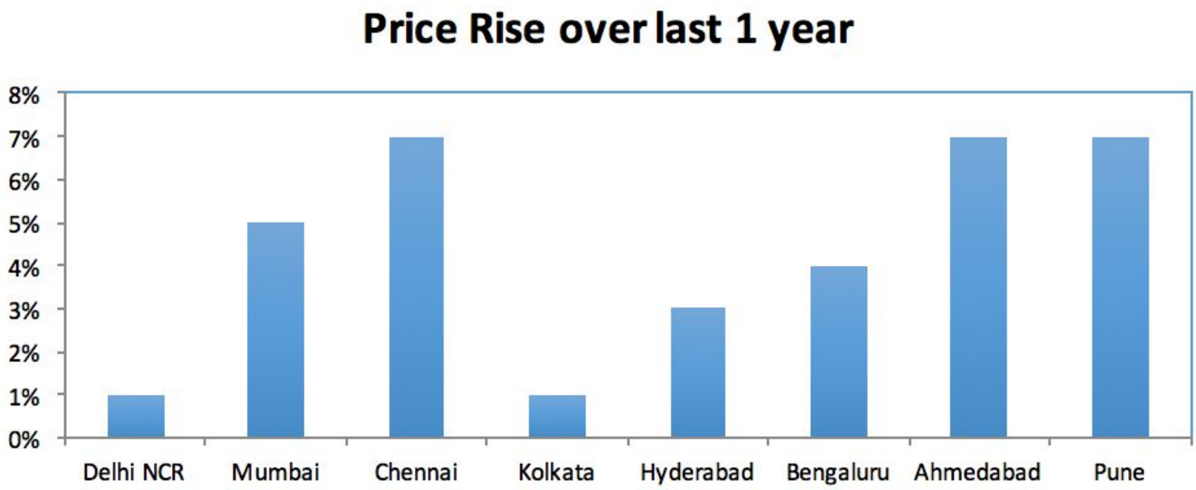
Not only the number of newer launches is decreasing, we are also seeing an erratic negative behaviour in the absorption or the demand data. This in spite of higher GDP growth, hence it is a sign of concern.

The situation of lying inventory is so grave that it is expected that to clear inventory in Delhi-NCR, it would take around 78 months at current rates.

Consumer Behavior

According to the report by Indian Express, the real estate price, on an average saw a

IJERMS
International Journal of Engineering Researches and Management Studies



Source: Economic Time

decent rise of 12% from 2011-2013 which has been higher than the rate of inflation.

The growth, however remained in low single digit post that. The table shown above, shows that for large metropolitan cities, the growth has been very lacklustre and has been on an average been decent for smaller cities. Hence, it can be expected that next wave of growth will be from this cities. With advent of smart cities, the scenario can be better expected.

The larger rural area in India is yet to see concrete residential development. With rise of Make in India, it is possible that dependence on agriculture sector is shifted and we have less reliance on monsoons which are very difficult to predict. People will start to have stable incomes due to these industrial projects and hence income from service sector.

V. CONCLUSION

1. The real estate sector has gained tremendously from government support in 2015, this trend is expected to continue in 2016 as well. The ambitious projects like development of smart cities is expected to drive this growth further. The steel industry is expected to benefit from this growth.
2. The recent rise in NPAs in the banking system is seeing an active interest by the government, and it is expected that the pain in banking system will ease. Once that is done, relatively easier finance can be expected by the real estate industry and the current vicious cycle of low demand, low profits and hence lower investments.
3. Steel industry can look at utilisation of by products such as steel slag which can have alternate use in development of roads and railways. Steel slag has been shown to improve the life and quality of roads and is used in many countries. However, India has not witnessed large scale use of steel slag yet.