

REAL ESTATE IN INDIAN CONTEXT-OPPORTUNITIES AND CHALLENGES

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ABSTRACT

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.

Keyword: FDI, Infrastructure, Real Estate, Township

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. 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, townhomes, 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. Incase 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 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/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.

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 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.

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.

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.

Concept of Real Estate Market in India

Indian real estate has seen an unprecedented boom in the last few years. This was ignited and fueled 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 present s 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 divided into three categories: These are

- Commercial,
- Residential,
- Agricultural

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

1. The physical characteristics of the property
2. The property rights holding the property
3. Geographical area
4. The development rate

Some Kind of Real Estate Businesses Include:

- Appraisal – Professional valuation services
- Brokerage – Assisting buyers and sellers in transactions
- Development – Improving land for use by adding or replacing buildings
- Property Management – Managing a property for its owner(s)
- Real Estate Marketing – Managing the sale side of the property business
- Relocation Services – Relocating people or business to difficult country

Current Scenario of the Real Estate Market In India

Now the India's population is above 121 crore. As shelter is our one of the primary need, so this sector is growing in drastic way. Most of the citizens are ready to purchase their own home. This segment is highly influenced by economic condition of our nation. Owing to

global meltdown, the residential real estate market in India too witnessed a shocking fall in demand and capital values, between first half of 2008 and first half of 2009. However, the sector experienced a pickup in demand during the second half of 2009 across major cities mainly attributed to improvement in economy.

Residential projects across cities saw several new mid-income housing projects being launched by developers to attract potential buyers. Demand for houses mounted as the global economy improved bringing back financial confidence to the home buyers along with low interest rates. End-users, who had put their purchasing plans on hold due to the fall in affordability levels and job-related uncertainties, started booking houses.

Real Estate in Odisha

Bhubaneswar is the capital and largest city of the Indian state of Odisha. Renowned German architect Otto Konigsberg designed the modern city Bhubaneswar in 1946. The city also called as “Temple City of India” as it contains a large number of Hindu Temples. Bhubaneswar was essentially designed to be a residential city having outlying industrial areas. Until the 1990 is, the city did not have any major investor and dominated mainly by public sector units, small scale and retail manufacturing. Bhubaneswar is ranked the 5th fastest growing Indian city in terms of real estates. It has the sacred towns of puri and konark and attracts many pilgrims and tourists every year. Bhubaneswar has well-developed roadways and houses the headquarters of the Orissa State transport corporation (OSRTC). Even The Headquarters of the east coast railway is located in Bhubaneswar. Through the daily express, passenger and weekly trains it is connected to major Indian cities such as Delhi, Kolkata, Mumbai, Chennai, Gwalior, Ahmadabad, lucknow, Bhopal, jaipur and Ujjain.

Bhubaneswar also houses Orissa’s only domestic airport, the biju patanaik airport, also called as the Bhubaneswar airport. It has regular flights to major Indian destinations.

The Real Estate in Bhubaneswar scene has seen considerable rise in demand. This is due to the expanding city population and the rising disposable incomes of Bhubaneswar's denizens. The price of land has been northward for the last few years. In some areas of the city, the price of Real Estate in Bhubaneswar has risen by a staggering 300 per cent! The price of an average apartment has risen by 100 per cent in the last 5 years. The boom in Real Estate in Bhubaneswar is due to the increased investments coming into Orissa state. Bhubaneswar being the capital of Orissa captures the king's share of the investments. The other reason of the boom in the Real Estate in Bhubaneswar is the entry of the high paying Information Technology (IT) companies in Bhubaneswar. Many big Information Technology companies like TCS, Infosys and Wipro have set up development centers in the city. An acute shortage exists in the residential segment of the Real Estate in Bhubaneswar There is a demand for high-end residential homes- this trend is more pronounced near the areas where Information Technology companies are situated; for example places like Chandrasekharpur. The retail segment of the Real Estate in Bhubaneswar is also growing in a phenomenal pace- a number of large format malls have already come up in Bhubaneswar. The prime areas of Real Estate in Bhubaneswar include Chandrasekharpur in the north, Khurda, Jatni and Choudwar towards the south and along the Cuttack to Bhubaneswar road (NH-5).

Opportunities and Challenges of Indian Real Estate

In India from various sector real estate sector is growing in a marvelous way in the presence of private banks. These banks are providing houses loans towards Indians and NRIs for fulfilling their self or business purpose. In our India, most of the city like New Delhi, Bangalore, Chennai, Mumbai etc. these are main center for the business and these cities are providing more employment opportunities towards jobseekers.

It is the sustained high growth rate of GDP and increasing GDP per capita in the country providing a momentum to the Real estate demand across segments. According to the recent FICCI report: the last three years have seen real GDP rise accumulative 26 per cent, with impressive increases of 8.5per cent in 2003/04, 7.5percent in 2004/05 and 8.4per cent in 2005/06 on the back of the robust growth across industries.

Many things are witnessed here (in this country) for the amazing growth in this sector. The increasing rate of life expectancy, declining infant death and a high but falling birth rate in the country these situations are created major demand for housing and infrastructure for meeting the human's primary want. An estimate shows that the present India's population is above 121 crore would touch 150 crore by 2030. Now a day all families are becoming nuclear family and most of the people are independent, they are able to meet their wants. For that reason higher personal savings and stronger investments, resultantly boosting the growth of real estate again. Within a few years, India becomes developed country.

As the Indian economy shows signs of substantial improvement, the commercial real estate industry is emerging from a transitional phase in 2010 to a recovery stage in 2011. Institutional-quality real estate assets in primary markets have begun to stabilize and appear to be poised for recovery. The future of real estate is full of challenges. In the commercial office segment, in spite of the huge demand, the developers may have to face heat from the ups and down of other sectors since this segment, in particular, is highly dependent on the performance of the Indian IT/ITES. Any unforeseen downturn in the business prospect of this industry would have a significant impact on the vacancy levels of the upcoming commercial office space stock in the country.

Secondly, with the introduction of the SEZ policy, it is believed that a significant amount of the office space demand will be targeted in SEZs. However, the current SEZ policy does not allow the migration of existing units to SEZs, in case such migration becomes possible, the market will witness supply of a huge stock of un-used office space, which will lead to substantial crash in rental and capital values in the segment. These challenges would be applicable to both the national or international players as the consumer preferences in India vary from one location to other and brand value in a highly competitive market would be stiff without substantial product differentiating factors. So for that reason the above factors are affecting the real estate business.

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, bharati, 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).

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.

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