

# An Overview on the Indian Real Estate Sector

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**Abstract** - The Indian real estate industry is one of the largest sectors after agriculture and primary sector in our country. These sectors contribute about 6.5 % to 7 % and it is one of major source of job for unorganized sector of Indian labor market. This sector was one of the main beneficiary of the post-liberalization periods, where India become one of the hot property of the foreign direct investment, lot of new ventures open day by day and salaries of Indian middle class increase exponential. Since 1990s it shows a major growth, and Indian metro cities, like Chennai Mumbai Delhi Kolkata feels the boom in reality sector.

The real estate sector in India is growing at a rate of about 20% per annum and this sector has been contributing to about 6-7% to India's GDP but it is not able to balance the supply demand continuum. The demand for housing has been increasing exponentially from last one decade. In spite of Government's efforts through various schemes, it has not been able to cope up with the increasing demands. Taking advantage of the situation, the private players snatched the control of real estate sector with almost no concerns for the demand of the consumers. Since last half decade this sector feels the heat of slowdown due to various factors which include industry constraints, government frequent changes in the regulating policies and economic slowdown. In our paper we study and do critical analysis of present trend and pattern of different factors of the real-estate sectors. In this paper we outline the real constraint issue and details. But also present some corrective steps which would benefit the sector and take it to its glorious past where it was increasing in flying colors.

**Key Words:** Real estate, Reality sector, GDP, Regulation polices.

## 1. INTRODUCTION

The real estate sector is one of the most globally recognized sectors. Real estate sector comprises four sub sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodations. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy. The Real estate sector is the second largest employee after the agriculture and primary sector. After agriculture. Real estate and construction together is the second largest employment provider in the country, next only to agriculture, according to the Economic Survey 2017-18, tabled in Parliament. It is also expected that this sector will grab more non-resident Indian (NRI) investments in both the short term and the long term. Bengaluru is expected to be the most favored property investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun.

The sector provide jobs to people over 40 million people in 2013, and as per projections, it is slated to employ over 52 million workforce by 2017 and 67 million workforce by 2022. Nearly 90 per cent of the people employed in the real estate and construction sector are engaged in construction of buildings, while the rest 10 per cent workforce is involved in building completion, finishing, electrical, plumbing, other installation services, demolition and site preparation. Since starting of the decade 2010 every research firm, investing LLP expected there will be 13 % growth will happen to this sector but one can't accused the restoring to hyperbole if there were to say the past half-decade has been one of the toughest period for the Indian real estate sector. One can't be accused of resorting to hyperbole if they were to say, the past half-a-decade has been one of the toughest periods for Indian real estate in its modern history. After having a swell time starting with the liberalization of the economy in the '90s, major

property markets are busy weathering the storm brought on by the unleashing of several policy, structural and business changes in the past five years. At a time when signs of slowdown made themselves visible in 2013, the government sharpened its efforts to unveil regulations in order to rid real estate of its evils.

### **1.1 Government policy**

Starting with 2014, the sector got one surprise after another when a new government took charge at the center and in quick succession launched the Real Estate Regulatory Authority (RERA), the Goods and Services Tax (GST), demonetization, the act against benami property and the insolvency code. Not only the new project launches become negligible in the residential realty world after demonetization, RERA and GST, housing sales have also depleted significantly. However, systemic changes were brought about to correct a tinder box-like situation created by overenthusiastic builders who bit off more than they could chew, when the buyer sentiment was at its peak for a market where the returns on investment were unbelievably high. Housing projects worth nearly Rs 5 lakh crores are stuck in mega cities of the country. In Q2FY20, sales fell 25 per cent even as new project launches declined by 45 per cent, shows PropTiger.com data.

### **2. Objective**

Main objective for this study is

- a. To study the recent trends and pattern in the Real estate sector in India
- b. To study the various constraints in path of the development of this sector
- c. To outline the steps and solutions for the problems which we got during our study.

### **3. Literature review**

Aggarwal S. (2003) in his paper try to present the problems of developing and less developing economies in coming days in real estate sector. He point out the deficiency of resource shortage which will be major challenges in the real estate sector. He also emphasised the negative environment impact on the environment.

Singh V. and Komal (2009) presented the psychological behaviours of a customers in real sector market. He describes the various market factors which impact the customer behaviour. He also discussed about present scenario in real estate sector of our country India.

CII publish report concerning with real estate sector on feb 2019, outlines various emerging trend in the affordable housing and new technologies used in the field of the real state sector.

Yojna September, 2017 publish article for the need of effective regulator authorities like RERA which will not only preserve the rights of common buyer but also weed out malign builders and make this sector more honest more accountable and safe destination for investment.

As per the reputed rating agency ICRA, Mumbai presented the report in Economics time (dated 6 April 2019) which announce negative growth in the real state sector. And there will be not much growth in this field in recent time.

### **4. Literature review**

In our study we go through different article of newspaper, web-portal and report of several government organizations. We also go through various research articles of rating agencies like ICRA, JLL and E and Y concerning with reality sector of India. We also critically analyzed the government of India and MP regulation regarding the reality sector and affordable housing.

### **5. FINDINGS, DISCUSSION AND ANALYSIS:**

The real estate sector in India is growing at a rate of about 20% per annum and this sector has been contributing to about 6-7% to India's GDP but it is not able to balance the supply-demand continuum. The demand for housing has been increasing exponentially from last one decade. In spite of Government's efforts through various schemes, it has not been able to cope up with the increasing demands. Taking advantage of the situation, the private players snatched the control of real estate sector with almost no concerns for the demand of the consumers.

## 5.1 Issues and challenges in real estate sector

### 5.1.1 Issues faced by customers

- **Delay in Projects:** The major problem consumer facing is delay of projects which may happen due to various reasons like court intervention in land issues, finance, approval etc. The consumer had to suffer because customer is paying rent where resides and paying EMI for home loan at same time due to delay of projects.
- Further there is little or no provision for necessary compensation from side of government.
- **Fraudulent advertisement to sell product** is quite popular and frequent in real estate. The main reason for flourishing fraudulent methods is absence of any regulator and standard guidelines.
- Further builders pay only 2 to 3% interest in case of default from their side but when customers default (like refuses to buy) then they have to pay around 16 to 18% which is unfair.

### 5.1.2 Issues faced by Real Estate Industry

The key challenges that the Indian real estate industry is facing today are:

- **Approvals and Procedural difficulties:** There are almost 50 approvals or more need to be taken for starting a real estate project and further these approvals are required from different govt departments or authorities. This is one of the major causes of delays and high amount of corruption in real estate sector. Consequently corruption and delay cause inconvenience to customers only.
- **Lack of clear land titles:** The land titles are not clear because of poor record keeping and division of land in many parts till independence. The slow pace of modernization of land records is further aggravating the problem.
- **Speculation in Land and Real Estate Prices:** The prices of land and real estate in India has increased exponentially in last decade and causes overpricing of commercial or residential property. In recent times, the real estate is the most favorable destination for investment in India and far ahead than equity or gold. Further real estate agents or brokers buy or sell property frequently with their own investments and cause of surging prices in property.
- **Sources of Finance:** Finance is the key for development of any industry. Due to poor image of Real Estate sector, banks are becoming reluctant to provide loans and making regulation tougher to avoid the bad loans. Alternate sources of finance are very costly and ultimately impact total cost of the project.
- **High Input Cost:** The real estate is a capital and labour intensive industry; thus rise in cost of labour and construction material due to inflation poses many problems to real estate industry. Further real estate builders many times raise a question about unfair practices in cement industry for rise of price more than 50% in quick time.
- Further government intervention of building minimum 20% affordable housing putting extra burden on developers and ultimately on the rest 80%.
- Real estate is the most famous sector for soaking the black money without any ambit.

- High taxation like stamp duty, VAT etc. and land acquisition are other major challenges faced by real estate sector.

All the above issues can be verified by the facts that more than 30% of houses and commercial spaces are lying vacant in major cities like Mumbai or Delhi despite being so much demand in real estate sector.

Thus to handle the above issues government of India has launched Real Estate (Regulation and Development) Bill. It seeks to regulate contracts between buyers and sellers in the real estate sector to ensure consumer protection, and standardization of business practices. It establishes regulatory authorities at the state level to register residential real estate projects.

## 5.2 Government Initiatives and policies

The Government of India along with the state governments have taken several initiatives to encourage the development in the sector. It has initiated the 'Smart City Project', where there is a plan to build 100 smart cities, which is a prime opportunity for the real estate sectors. Here are lists other initiatives,

- Creation of National Urban Housing Fund was approved with an outlay of Rs 60,000 crore (US\$ 9.27 billion).
- 1,427,486 houses have been sanctioned in 2017-18, under the Pradhan Mantri Awas Yojana (PMAY) Urban.
- Construction of additional 3,21,567 affordable houses was sanctioned under the scheme

## 5.3 Steps to solve the problem

After critically analysing the trends and patterns we want to present some steps to solve the problems of the real estate sector of India

1. The government of India should relaxed the norms to allow foreign direct investment in the construction development sector.
2. The securities exchange board of India (SEBI) should also notified the final regulations that will govern Real Estate Investment Trusts (REITs). This trust will help small investors and developers for easy access of funds and create new investment avenue for institutions and investors.
3. Incentives and other monetary benefits should be offered to individual and private bodies which take up Research and development activities for new building materials and technologies, so that industry can deliver green, low cost, affordable and environment friendly housing and commercial structures.
4. When it comes to decision making, government should decentralize the decision-making process and empower local bodies in urban bodies. The approval process should be streamlined by introducing single-window clearance mechanism backed by technology.
5. Finally, interest rates should be cut, which can reduce the cost of borrowing for developers. Besides, it can help clear the unsold inventory and support future demand.

## 6. Conclusion

After studying the various articles, reports and papers of experts in real estate sector we found then since last 5 years real estate sector is in much stressed condition. Due lack of effective regulating and monitoring body there is lack of trust in the field of real estate sector. We also present the government policies and efforts for the development and solving the problems of real estate sector field. After going through different article we provide comprehensive solution which will surely help in the improvement of the real state sector.

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