

# REAL ESTATE IN INDIA – IS ITS FUTURE AT STAKE?

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**Abstract:** *This paper shall be focusing on Real Estate in India which is a globally recognized sector. As we all are aware of the current scenario of real estate sector that its going towards downfall to as much as 50% in few cities. People now are bit resistive towards investing in it. They are expecting more downfall to come. Though they want to invest for the reason that land is a scarce resource so in the long term it shall be valuable but will they be fooled if they buy now – that's the fear! This paper shall be analyzing and focusing towards the outlook of a common man that how do they think and what are their perceptions towards this sector. This we shall be doing with the help of simple graphical structures. Though no one can deny the fact that this sector has been one of the ultimate places to park money over a period of time of every earning person. Everyone on Earth earns with a dream to have their own land and building someday, when all the earners shall participate in the estate purchase how can downfall even touch this sector- Impossible! So, the data is revealing an opposite figure as compared to the general market sentiments of Indians. This is what this paper is about to find out the future of this real estate sector- where its heading and is its future is at stake? or is it still a safe and lured investment from the point of view of a common man.*

**Keywords:** *EMI's, investment, cash inflow, gestation period, Tax benefits.*

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## 1. INTRODUCTION

This paper shall be focusing on Real Estate sector in India. The current contribution of this sector towards the Indian Gross Domestic Product (GDP) is approximately 6-7 %. The overall situation is not good of this sector as it was expected. Many cities are experiencing steep fall in their estate price though the fact cannot be denied that at few places at same time their estate prices tend to increase. But one thing we must focus upon is its annualized return. From the short-term perspective though this sector might not currently seem to be an interesting one but since we all know that land is a limited and scarce resource so that value will appreciate in the long term for obvious reasons. People now are bit resistive towards investing in it. They are expecting more downfall to come. Though they want to invest for the reason that land is a scarce resource so in the long term it shall be valuable but will they be fooled if they buy now – that's the fear!

This is what this paper is about to find out the future of this real estate sector- where its heading and is its future is at stake? or is it still a safe and lured investment from the point of view of a common man. This paper shall be analyzing and focusing towards the outlook of a common man that how do they think and what are their perceptions towards this sector. This we shall be doing with the help of simple graphical structures. Currently this real estate sector is towards downfall to as much as 50% in few cities.

The real estate here being discussed is from the point of view of common man and for the purpose of investment and not a purpose of trade.

By the year 2025 this sector is having an expectation to contribute as much as 13 % towards Indian Gross Domestic Product (GDP) which is double figure five years from now. Despite the current slowdown this sector is going through still it retains the confidence to grow at double digit figure. Though no one can deny the fact that this

sector has been one of the ultimate places to park money over a period of time of every earning person. Everyone on Earth earns with a dream to have their own land and building someday, when all the earners shall participate in the estate purchase how can downfall even touch this sector.

This sector is basically divided under four streams- housing, retail, hospitality and commercial. But we must not forget that the housing division is the most looked after since it forms as much as 70 % of the entire real estate sector in India. Earlier, i.e. before demonetization this sector was most in demand to park the black money by the investors easily, but after the demonetization reforms came in this sector showed its back to black money; now everything has to be moved legally with 80% white money which closed the doors to park the black money. This may also be one of the informal reasons to experience a fall in this sector as it was never seen before in history. Though a market size of \$ 1.8 billion has been touched by this Indian sector which if compared from previous 20 years' time data shall show a leap forward increase. Many are still having an optimistic view on it while few are pessimistic based on the data published. The forecasts and predictions which are all over the statistics and calculations does reveal the fact that this sector is going to see a downfall. By 2040 (after 20 years) this sector is expected to achieve \$9.30 billion target which is approximately 8 times the current figure. How are the data seeming to be contradictory? That's a big question playing in the minds of the Indian investors that at one point they say the sector will have downfall and at another end they predict rise. So the investors must buy, or stay if they already have bought or sell it out to skip the downtrend. That's the biggest matter to decide the strategy concerned for this investment which has been thought as the safest investment form decades. We have seen innumerable example of the housing projects being sucked and not been delivered at the promised time there by killing the opportunity cost or the interest rate for that delayed period. So the question arises who is going to suffer for the delayed projects? Much often we have seen the investors flurrying and getting destroyed under such real estate projects. Many cases have also gone to the high courts but alas no decision comes forward for the help of common man as an investor in this field. At one point its most luring asset which doesn't depreciate but only appreciates but on the other hand this asset also creates a hurdle for the investors to smile due to delay in housing projects, high EMI, and high cost of financing with no tax benefits.

## 2. Statistics

S.No	Cities	2007 Index	Jan-March 2015 Index	Compound Annualized Returns
1	Chennai	100	364	17%
2	Pune	100	251	12%
3	Bhopal	100	239	11%
4	Mumbai	100	238	11%
5	Faridabad	100	224	10%
6	Ahmedabad	100	215	10%
7	Kolkata	100	212	10%
8	Lucknow	100	200	9%
9	Indore	100	195	8%
10	Delhi	100	190	8%
11	Dehradun	100	190	8%
12	Bhubaneswar	100	188	8%
13	Nagpur	100	187	8%
14	Coimbatore	100	179	7%
15	Raipur	100	173	7%
16	Chandigarh	100	169	7%
17	Surat	100	168	6%
18	Guwahati	100	168	6%
19	Vijayawada	100	163	6%
20	Meerut	100	163	6%
21	Patna	100	160	6%
22	Ludhiana	100	145	5%
23	Bengaluru	100	115	2%
24	Jaipur	100	102	0%
25	Hyderabad	100	97	0%
26	Kochi	100	88	-2%

As we can see from the table above table on the real estate sector, it reveals certain important facts such as- the compound annualized returns which means per year how much return on investment are the investors getting. In the above table only Chennai is the place where the annualized return is 17% p.a., Bhopal, Mumbai, Faridabad, Ahmedabad and Kolkata are also in lower end of double digit figure but other cities all are having returns ranging from -2% to 9%. Such returns are worse than Fixed deposits. Hyderabad city is giving zero returns while Kochi is giving negative returns. Could anyone has thought of the fact that an investment made in real sector would give negative returns, but now it's happening. So in the short term the scenario is pretty unwell where it cannot make investors happy. But yes in the long term this sector is going to yield its thing. The above comparison has been made form 2007 index and 2015 index for 26 cities taken from India randomly without any bias. The 2007 index has been taken as a base for comparison keeping it at 100.

## 3. Findings

The following are some findings about the real estate option as an investment from investors point of view as a common man:

The positive aspects to invest in real estate are:

- It's a long-term investment
- The value of land in general appreciates over long period of time
- The bought real estate can further be put out on rent which will give cash inflow
- Tax benefits on housing loan and women's loan
- It's an asset which an investor can use also
- Requires less time of the investor

- Easy to manage
- Easy EMI's are available.
- No storage of asset required.

The negative aspects to invest in real estate are:

- Negative returns
- High cost of financing
- Economic slowdown
- Expected correction in prices
- Taxation structure
- Rent is cheaper if opportunity cost considered
- Stagnancy in market
- Lack of faith in the system
- Long gestation period
- Many legal formalities
- Luring other investment options available
- Loans to buy real estate is costly
- Everything has to be moved legally with 80% white money which closed the doors to park the black money since demonetization.
- The current contribution of this sector towards the Indian Gross Domestic Product (GDP) is approximately 6-7 %.
- By the year 2025 this sector is having an expectation to contribute as much as 13 % towards Indian Gross Domestic Product (GDP) which is double figure five years from now.
- By 2040 (after 20 years) this sector is expected to achieve \$9.30 billion target which is approximately 8 times the current figure.
- Asset maintenance required.

Other aspects to invest in real estate are:

- In the above table only, Chennai is the place where the annualized return is 17% p.a.,
- Bhopal, Mumbai, Faridabad, Ahmedabad and Kolkata are also in lower end of double-digit figure.
- other cities all are having returns ranging from -2% to 9%.
- Such returns are worse than Fixed deposits.
- So, in the short term the scenario is pretty unwell where it cannot make investors happy.
- But yes, in the long term this sector is going to yield its thing.

#### **4. Final interpretation**

After looking into the findings of the paper under study, the final interpretation can be drawn. Both the positive aspects and the negative aspects has been analyzed deeply with all ifs and buts and an interpretation was drawn taking into consideration the common man if India. The real estate here being discussed is from the point of view of common man and for the purpose of investment and not a purpose of trade. Could anyone has thought of the fact that an investment made in real sector would give negative returns, but now it's happening. So, in the short term the scenario is pretty unwell where it cannot make investors happy. So, the investors must buy, or stay if they already have bought or sell it out to skip the downtrend. That's the biggest matter to decide the strategy concerned for this investment which has been thought as the safest investment form decades. But yes, in the long term this sector is going to yield its

thing. After the demonetization reforms came in this sector showed its back to black money; now everything has to be moved legally with 80% white money which closed the doors to park the black money. This may also be one of the informal reasons to experience a fall in this sector as it was never seen before in history.

## **5. Conclusion**

In the short term the scenario is pretty unwell where it cannot make investors happy. But yes, in the long term this sector is going to yield its thing.

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