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Real estate sector in India

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Abstract

India is an emerging economy developing at a pace of 7.5% economic growth rate. Indian real estate sector among others is paving the way for sustainable infrastructural development. The real estate sector growth is linked to developments in retail, hospitality, commercial, housing and SEZs.

Indian Real estate sector is transforming into a dynamic and organized sector. Govt. policies have been instrumental in providing required support after recognizing the need for infrastructural development in order to ensure sustainable development of the citizens of India.

The present paper is based on secondary data sources and attempts to create understanding of present scenario and future prospects in Indian real estate sector.

Keywords: Real estate, Residential, Commercial, SEZs

1. Introduction

Real estate sector comprises five sub sectors: Housing, Commercial, Retail, Hospitality and Special economic zones. Indian real estate sector is emerging as second largest employer after agriculture and is expected to grow at 30% over the next decade. Growth drivers of this sector are: developing corporate environment, increasing demand for urban and semi urban accommodation and office spaces.

The liberal economic environment of India has been successful in capitalizing the economic fundamentals such as growing young and middle class population and rising urbanization. The country is paving the way for becoming the third largest economy worth USD 6.6 trillion by 2028. Indian Real estate sector has been a beneficiary of the rising growth potential in the country. The real estate sector growth has complemented the development of physical and social infrastructure along with the commercial and residential real estate.

India has a 3.3 million square km area with a population (2011 census) 1210 million, of which 377 million is urban population. About 10 million people are moving to Indian cities every year. With such a rate of urbanization, India is supporting real estate development through private equity and FDI in real estate. The pace of urbanization is expected to contribute 70-75 per cent to national GDP by 2025. The rising per capita income (USD 2800 in 2012 and expected to be USD 8300 in 2028) supports the growth of retail and residential real estate. Moreover India has got a demographic dividend i.e. about 35% of Indian population is between 15-35 age bracket, which means there is going to be a rising demand for housing over the next coming 15 years. Thus India has got strong drivers of Real estate sector development i. e. urbanization, young population, rising income level, growing number of nuclear families and strong expected growth in manufacturing and service sector. The size of the real estate sector is expected to increase 7 times to USD 853 billion in 2028 from USD 121 billion in 2013.

Sub Sectors of real estate sector

Housing/ Residential

Residential segment which contributes 80 per cent to real estate sector, comprises affordable housing, mid income housing and luxury housing.

Affordable housing: in India, affordable housing means housing for economically weaker section (EWS) and lower income group (LIG) households. Affordable housing ranges from 250-650 sq feet area. This segment is expected to account for 85-90 per cent of the total residential development by 2028.

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Mid income housing: An average mid income house is about 800-1200 sq feet, which is for households where income ranges from USD 3000-28000 per annum. This segment is expected to account for 7 per cent of the total housing demand till 2028.

Luxury housing: houses for more than USD170000 and are at least 1200 sq feet. Luxury housing is branded residence and golf townships. Developers in India are collaborating with renowned global luxury brands to serve the luxury demand. It is expected that India would require 1.5 million luxury houses over the next 15 years.

Commercial real estate

Retail: Organized retail forms a small portion of the Indian real estate sector, but it is growing at 25-30 per cent annually. Booming consumerism, entry of MNC retailers and young population having global retail exposure are expected to drive the demand for organized retail.

Office: AIT/ITeS sector is first and BFSI is the second largest office space occupier in India. According to NASSCOM, the revenue from IT/ITeS sector is expected to reach USD 300 billion by 2020, a growth of 177 percent from 2012. As per planning commission, the BFSI sector workforce is expected to increase by 8.5 million from 2012 to 2020. The southern states Andhra Pradesh, Telangana, Tamil Nadu and Karnataka- have been the major drivers of office segment development. Nearly 45 per cent of India's office stock is represented by these states and this is projected to grow at a CAGR of 8 per cent between 2012 and 2016.

Industrial: Indian Govt. has initiated various measures to promote industry in the country. Make in India movement is being implemented through various steps. One of them is 1483 km long Delhi Mumbai Industrial corridor which connects seven states in northern and western India. With technical and financial support from Govt. of Japan DMIC would result in development of 11 industrial regions and 13 industrial areas. Similar projects are being planned to connect Amritsar to West Bengal and Chennai to Mumbai.

Hospitality: The increasingly global nature of business is boosting business travel. Tourism industry is also witnessing robust development because Govt.'s initiatives to promote tourism in tier2 and tier 3 cities are generating significant demand for hotels. Govt. has sanctioned the construction of one lakh km of road in FY 15-16 and has allocated USD 11.61 billion to the infrastructure sector. Moreover, a fund of USD 3.31 billion has been allocated as National Investment and Infrastructure Fund. India's tourism and hospitality industry is anticipated to touch USD 418.9 billion by 2022. In 2015 7.76 million foreign tourists arrived in India. No. of foreign tourists arriving in India are expected to increase at a CAGR of 6.3per cent during 2005-2025.

Special Economic Zones: The gov't. of India has formally approved 416 SEZs, of which 199 are in operation. Majority of the SEZs are in IT/ ITeS sector. SEZs are emerging as an extension of real estate sector. Govt. of India has permitted 100 per cent FDI in real estate projects in SEZs. Govt. is taking various steps to develop the SEZs such as: minimum land requirement has been brought down from 1000 hectares

to 500 hectares for multi-product SEZ and for specific SEZ to 50 hectares. Exports from SEZs contributed 26.1 percent of total exports in July, 2014.

Emerging trends in the sector

Smart Cities: The concept of smart city is still new in India, but gov't. is initiating to promote smart cities in India. Smart city is one which can sustain the challenges of increasing urbanization i.e. to cope with growth in urban population resulting in creating excessive pressure on demands for water, waste management, transportation and power.

Govt. of India has planned to develop 100 smart cities over next 20 years, for which Rs. 7060 crore has been allocated in 2014-15 Union Budget. The plan include to construct satellite towns near existing mega cities, upgrade existing mid-sized cities and construct settlements along industrial corridors.

Smart city concept is new and gaining intention but involve many challenges such as:

Projects require huge investments so cannot be started and managed single handedly, but requires being an integrated effort by local and central gov't., banks, financial institutions, private investors, entities and institutes with knowhow. Research show that overlapping judicial set ups and fragmented institutional responsibilities are the main hindrances in smooth delivery of projects.

Urban India is a complex mix of population categorized on the basis of religion, caste, status, occupation, origins and beliefs. Each group has its own way of living which at the best should not be disturbed. Most of the cities have half or more of their population dwelling in slums. Challenge is to cater to the differential needs of all these groups while ensuring the delivery of smart city services.

In addition to initiatives being taken by Govt. to establish smart cities in India, international corporate are showing keen interest in the projects. Singapore, Spain, Japan, France have come forward to develop and help Andhra Pradesh, New Delhi, Varanasi and Himachal Pradesh respectively.

E-Commerce in Real estate: Another challenge in real estate is to reach and serve the potential customers online when the e-commerce business is not that regulated. The developers are exploring new avenues to reach to the customers. E-commerce has brought the fruits to the players like Tata Housing has launched two projects on Goggle Online Shopping Festival and has sold over 700 units amounting to about Rs. 400 crore. It has also entered into an selling homes arrangement with Snapdeal. Com. Other developers on GOSF include Mahindra Lifespaces, Unitech, Raheja, Godrej Properties and Brigade. There are some e-commerce companies dealing in real estate such as housing.com, commonfloor.com and indiahomes.com are getting significant response to create infrastructure to support the sale and renting of real estate. Challenge of e-commerce business poses a threat to physical retailers and mall developers. But adoption of the mixed use format and delivering theme based shopping experiences are some of the proactive approaches being adopted by the developers.

Government policy initiatives

- Home loan limit has been raised from USD 2488 to USD 3317 during 2015-16.
- "Housing for all" scheme by 2022 has been announced and the target is to complete 2 crore houses in urban and 4 crore houses in rural areas.

- There is a proposal to increase the investment in infrastructure sector by 70000 crore.
- RS. 150 crore have been allocated to encourage infrastructure and development research.
- National Investment and Infrastructure fund to get an annual flow of Rs.20000 crore.
- Self-Employment and Talent Utilization (SETU) to be established as techno financial, incubation and facilitation program to support business startups.
- Efforts to replace pre-existing regulatory mechanism to help India become most favored investment destination.
- Tax free bonds to be issued to fund rail, road and irrigation sectors.
- To revitalize the PPP model and reduce the risk involved.
- To set up 5 ultra-mega power projects and to electrify the remaining 20000 villages by 2020.
- SEBI has notified final regulations that will govern real estate investment trusts (REITs) and infrastructure investment trusts (InvITs). This will enable easy access to funds and a new investment avenue for investors.

Challenges

- Inadequate investment channels
- Shortage of skilled manpower and technology
- Strict and overlapping regulations causing delays
- Lack of suitable developable land
- Lack of clear title lands
- Absence of title insurance
- Rising labor and material costs

Way forward

The real estate sector in India is yet in promising stage. Government's support in form of softening interest rates and lending more to the sector will definitely promote the interest of developers and consumers. But a single window clearance is needed to improve the ease of doing business. Moreover land acquisition issue is still undecided and the ambiguity is only hurting investors' sentiment. Real estate sector is demanding industry status to bring transparency and easy funding.

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