Analysis of Real Estate Market in India

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Abstract

India is blessed with one of the fastest growing real-estate markets in the world. It is not only attracting domestic real-estate developers but also the foreign investors; particularly, the Non Resident Indian (NRI) investments in India have a bulk of their share in the Indian housing market. Despite the global economic gloom as a result of the sub-prime mortgage debacle and ensuing credit crunch, India’s housing sector remains on its course for yet another year of double-digit growth. The growth is attributed mainly to a large population base, rising income level, and rapid urbanization, according to the research study and Indian Retail Sector Analysis. In this view, the ongoing development exhibited by the housing construction industry in India, it is expected that the sector will overtake other industrial sectors in terms of contribution to the Gross Domestic Product (GDP) growth during the next few years. The present paper analyses the trends and patterns of real estate market system in India.

Key Words: Retail Sector, Domestic, Development, Investor and NRI.

Introduction

Commercial real estate sector is in boom in India. In the last fifteen years, post liberalization of the economy, Indian real estate business has taken an upward turn and is expected to grow from the current US Dollar (USD) 14 billion to a USD 102 billion in the next 10 years. This growth can be attributed to favorable demographics, increasing purchasing power, existence of customer friendly banks & housing finance companies, professionalism in real estate and favorable reforms initiated by the government to attract global investors. Presently, affordable housing is basically targeting the economically weaker class and low-income groups and constitutes majority of the Indian housing industry, both in terms of value and volume. Besides, luxury housing is also expected to witness significant growth in the coming years as this market segment is comparatively very small and possesses huge potential for further developments.
Further, Foreign Direct Investment (FDI) in India’s booming real estate and housing market jumped 80 times between 2005 and 2010. Moreover, private equity funds are also venturing into development of housing projects. The fund houses are developing their own projects in order to endow better returns for their investors. Factors including steadily increasing life expectancy, lack of safety and security in urban areas and rising number of financially independent senior citizens have made senior citizens ideal target customer for niche offerings by housing firms.

The study also provides detailed analysis of the housing sectors in Indian major cities. It presents thorough insight into each of the housing segments including affordable housing, medium housing, and luxury housing. Most importantly, the Study also provides future outlook taking into account the effect of global economic crisis on the housing sector of the country. Base drivers, opportunities, and challenges faced by the housing sector are also discussed. Additionally, the Study sheds light on the emerging industry trends and discusses the market structure along with current and past market performance of the Indian housing industry. It has also identified key players ruling the market and has included detailed information about their businesses along with their recent activities.

**Characteristics of the Real Estate Market in India**

- **Growing Market Demand**
- **Greater availability of information**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Details</th>
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<tr>
<td>Realization of large commercial projects</td>
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<td>IPOs by developers</td>
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<td>Gradual organization of the markets in the Tier I cities</td>
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<td>Emergence of transparency and liquidity</td>
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<td>Entry of international real estate consultancies</td>
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<td>Governing legal framework relaxed</td>
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<td>Competitive pricing</td>
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Cause-Effect scenario leading to emergence of organized real estate market in India

India Housing Bubble Still Expanding

The property market in India has traditionally been unorganized and fragmented. However, the recent past has seen a consolidation of positions in the market as developers are stretching their capacities to the maximum in order to meet the growing market demand, which in turn has encouraged large projects with sourced financing. The IPOs by large real estate developers like Sobha, Raheja and DLF have led to organization of the market in the Tier I cities, but the Tier II and Tier III cities still demonstrate the traits of an unorganized market. Whilst the Indian real estate market still lacks transparency and liquidity compared to more mature real estate markets, the increasing requirements of multi-national occupiers, as well as the influx of international property consultancies has led to the introduction of greater availability of market information, both in published and private form pushing the sector to an organized market form.

Driving Forces

Stated below are the reasons that have led to the real estate boom in the country

- Booming economy; accelerated GDP to 8% p.a.
- India’s emergence as an attractive off shoring destination and availability of pool of highly skilled technicians and engineers; Development of large captive units of major players include GE, Prudential, HSBC, Bank of America, Standard Chartered and American Express
- Rise in disposable income and growing middle class, increasing the demand for quality residential real estate and real estate as an investment option.
- Entry of professional players equipped with expertise in real estate development;
- Relaxation of legal rulings and processes by the governing bodies encouraging investments in real estate
- Improvement in infrastructure facilities

Apart for the corporate clientele, the Special Economic Zones (SEZs) also attract a number of real estate developers, including DLF, Ansals, Omaxe, Parsvnath, Shipra Estate to name a few.
Table 1 A list of corporate that have shown interest in development of SEZs

<table>
<thead>
<tr>
<th>Corporate</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Industries</td>
<td>Gurgaon, Mumbai/Navi Mumbai</td>
</tr>
<tr>
<td>Adani Group</td>
<td>Mundra</td>
</tr>
<tr>
<td>TCG Refineries</td>
<td>Haldia</td>
</tr>
<tr>
<td>Suzlon</td>
<td>Coimbatore, Udi, Vadodara</td>
</tr>
<tr>
<td>Hindalco</td>
<td>Sambalpur</td>
</tr>
<tr>
<td>Genpact</td>
<td>Bhubaneshwar, Jaipur, Bhopal</td>
</tr>
<tr>
<td>Vedanta</td>
<td>Orissa</td>
</tr>
</tbody>
</table>

Note: Corporate interested in development of SEZs in India and the location of interest

Sources: SEBI

RBI has released the latest data for their House Price Index (HPI) and it looks like the mad pace of real estate price growth has mellowed, but only slightly. Price growth at an all India basis is now 19% from last year.

Unfortunately, RBI has not released information about transactions, so we don’t know if volumes are up or down. Housing prices were very high last quarter as well, with prices up 26% year on year. However, every city is different; some cities seem to have slowed down price growth while others have picked up pace significantly.

Real Estate and Financial Trends in India

Mumbai and Delhi Still Red-Hot, But Slower Than Earlier Quarter
Mumbai shows Year on Year (YoY) growth of just 11% after a scorching 30% growth in the December quarter (year on year). Delhi, though, continues to be in scorched earth territory, moving up 33% from last year. Prices have gone up an annualized 30% or more since September 2011, and the index has now reached 259 from a 100 in March 2009 (a compounded growth of 27%, the highest of all cities).

**Bangalore and Chennai Show Faster Growth**

Bangalore hit 5% price growth in Q4 (March 2013). This is benign, for now. Chennai is now at 26% price growth and again, looks like it has gone out of control.

**Kolkata and Lucknow: The Hot Air Balloons**

Kolkata has gone absolutely nuts with a 63% price growth, taking its own compounded price growth from 2009 to 27%, just behind Delhi. Lucknow, with 29% YoY growth, is still among the fastest growers. Note that the drop in transaction volumes in the previous quarter seems to have had no impact on price growth.

**Jaipur grows 18%, Ahmedabad remains at 9%**

Jaipur prices are up the highest since December 2010 (on a YoY growth basis). Ahmedabad shows signs of softening, though prices have grown slower in the 2010-11 time frame.

**Kanpur the weakest link**

Kanpur shows a drop of over 21% on prices. Last time I was told of some inaccuracies in Kanpur in that much of the price is in “black” (paid in cash) and thus not recorded.

### Table 2: House Price Indices (Base - Q4: 2008-09=100)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Mumbai</th>
<th>Delhi</th>
<th>Bengaluru</th>
<th>Ahmedabad</th>
<th>Lucknow</th>
<th>Kolkata</th>
<th>Chennai</th>
<th>Jaipur</th>
<th>Kanpur</th>
<th>All-India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1:2011-12</td>
<td>191.6</td>
<td>152.8</td>
<td>116.9</td>
<td>152.3</td>
<td>149.3</td>
<td>157.0</td>
<td>106.3</td>
<td>161.1</td>
<td>135.4</td>
<td>152.0</td>
</tr>
<tr>
<td>Q2:2011-12</td>
<td>206.1</td>
<td>153.0</td>
<td>116.0</td>
<td>162.8</td>
<td>159.2</td>
<td>159.0</td>
<td>113.9</td>
<td>165.1</td>
<td>138.3</td>
<td>157.8</td>
</tr>
<tr>
<td>Q3:2011-12</td>
<td>191.7</td>
<td>168.6</td>
<td>146.1</td>
<td>171.8</td>
<td>172.3</td>
<td>155.0</td>
<td>120.3</td>
<td>163.5</td>
<td>140.0</td>
<td>164.1</td>
</tr>
<tr>
<td>Q4:2011-12</td>
<td>224.7</td>
<td>195.3</td>
<td>140.6</td>
<td>177.2</td>
<td>169.7</td>
<td>158.4</td>
<td>117.0</td>
<td>164.4</td>
<td>148.7</td>
<td>176.9</td>
</tr>
<tr>
<td>Q1:2012-13</td>
<td>231.8</td>
<td>217.3</td>
<td>140.2</td>
<td>176.6</td>
<td>179.4</td>
<td>204.2</td>
<td>133.9</td>
<td>171.9</td>
<td>144.9</td>
<td>188.6</td>
</tr>
<tr>
<td>Q2:2012-13</td>
<td>232.4</td>
<td>225.2</td>
<td>143.0</td>
<td>183.4</td>
<td>208.9</td>
<td>226.9</td>
<td>129.5</td>
<td>177.7</td>
<td>135.8</td>
<td>194.3</td>
</tr>
<tr>
<td>Q3:2012-13</td>
<td>248.5</td>
<td>247.8</td>
<td>147.9</td>
<td>187.8</td>
<td>221.6</td>
<td>247.3</td>
<td>149.2</td>
<td>179.4</td>
<td>117.0</td>
<td>206.8</td>
</tr>
</tbody>
</table>
Q4:2012-13 | 248.6 | 259.2 | 148.3 | 193.5 | 218.8 | 258.6 | 148.0 | 194.0 | 116.9 | 211.2
---|---|---|---|---|---|---|---|---|---|---
**Growth in per cent** |  |  |  |  |  |  |  |  |  |  
| y-o-y | 10.6 | 32.7 | 5.5 | 9.2 | 28.9 | 63.3 | 26.5 | 18.0 | -21.4 | 19.4 
| q-o-q | 0.0 | 4.6 | 0.3 | 3.0 | -1.3 | 4.6 | -0.8 | 8.1 | -0.1 | 2.1

*Chennai index is based on both residential and commercial properties.
All-India index is a weighted average of city indices; weights based on population proportion.

Note: Compounded Growth Rate Since 2009 at 21%
Source: RBI

The YoY growth in the Reserve Bank house price index was around 19 per cent in Q4 of 2012-13. The QoQ increase remained moderate at 2.1 per cent. On a YoY basis, the increase has been the highest in Kolkata, whereas it witnessed a decline in Kanpur. During the past four years, the index of house prices has increased by over 110 per cent (up to Q4:2012-13)

As of March 2013, Prices have more than doubled since 2009. The All-India Index is at 211, from 100 in March 2009.

Sources: Reserve Bank of India, Capitalmind.in

The bubble is intact. But is the bubble bursting? Quarter on Quarter (QoQ) growth is the second lowest since the data has been recorded – an all India QoQ growth level of 2.1% (versus 6.4% last quarter). Credit will be constrained from July onwards, so it is quite likely that price growth is hit. Already, rental prices have flattened or reduced, and commercial rents and prices are down (speaking of the June quarter, from anecdotal information). A credit crunch could well
cause developer defaults, and then prices will truly fall. For now, the bubble is well and truly visible.

**FDIs/FIIs**

Post liberalization, the investment opportunities in real estate for the FDIs and Foreign Institutional Investments (FIIs) have greatly opened up. Foreign investors can now purchase commercial development projects (under construction) over 50,000 sq m (540,000 sq ft), or plotted residential developments with a minimum size of 10 hectares. Foreign investors may purchase an equity stake in an unlisted real estate company and thereby partner in its growth plans across asset classes and cities. Listed real estate companies also offer good liquid investment opportunities routed into designated special purpose vehicles that hold the asset(s) being developed, thereby reducing risk. These investors look for innovative financial products to suit their investing needs.

**Financial Institutions – Real Estate Mutual Funds**

Major financial institutions such as ICICI, HDFC, IL&FS and Kotak Mahindra have all launched real estate funds, either as joint ventures or sole investors. Most institutional funds operate on a pan-Indian basis, and are increasingly looking at opportunities in Tier III cities, in order to gain "first mover advantage".

**Private Equity/Venture Capital Funds**

As per the Securities and Exchange Board of India (SEBI), Foreign Venture Capital Investors (FVCIs) may invest in real estate assets, within the framework of SEBI. This has paved the way for capital infusion into the market and a significant weight of foreign capital is now chasing Indian real estate. Indirect real estate investments are made into a pooled investment fund; such funds are usually created in partnership with domestic developers or financial institutions. Such Venture Capital firms, partnered with developers form a potential client base, keen to invest in the real estate sector.

**Risks involved in the Real Estate Investment Market**

**Liquidity risk**

The real estate investment market is still in its infant stage. The time required for liquidity of real estate property can vary depending on the quality and location of the property.

**Regulatory risks**

In terms of property ownership, permission from the Reserve Bank of India is required
for foreign investors. For capital repatriation, investors need to apply for approval from the RBI, and foreign direct investment is limited to a limited set of opportunities (e.g. townships). The REMFs work within the SEBI framework. Being a developing and growing sector, the rules, regulations and legalities demonstrate frequent changes, making it seem as a cumbersome investment option to the investors.

**Property market transparency risk**

The Indian property market has low transparency when compared to the more mature and developed real estate markets. Although market transparency has improved, reliable and consistent information on the Indian property market is still not easily available. There are also more professional due diligence and valuation institutions needed. This holds true even for the Tier I cities.

**Macroeconomic risks**

Interest rates, inflation and exchange rate risks are amongst the important macroeconomic indicators and have shown decreased volatility. The provision of facilities, is in many regions, still inadequate (education, transport infrastructure). These risk factors are not likely to disappear in the near future, impeding the development of the real estate sector.

**Ownership and Land Title Issues**

Lack of information and low transparency in the real estate segment in India, coupled with the age old property related issues discourages the investment of the large players in the semi urban and rural areas thus slacking an overall growth of the real estate sector.

**Risks to financial conditions remain from spillovers and slowing growth**

Although the immediate risks to the euro area appear to have receded, the early signs of recovery in the US are posing fresh challenges for policymakers. As the evidence over the past couple of months suggests, the challenges of communicating an exit from unconventional monetary policy exist as such signals can lead to spillovers with consequences of heightened volatility and possibilities of markets overshooting. In turn, this poses newer challenges for policymaking in EMDEs. It, therefore, becomes important for EMDEs to ensure adequate buffers and hedges in order to manage such sharp and sudden risks. While the slew of measures taken over the past several months on the domestic front provide comfort, the balance of risks still appears to be on the downside, with weaknesses in corporate and banks’ balance sheets feeding into each other. Weaknesses in the macro financial environment are also adding to the
pressures. The balance sheet effects from slowing growth can impact the evolving financial market conditions. It is, therefore, important to continuously monitor these risks and take preventive policy actions to ride over this downside.

**Conclusion**

The Indian real estate sector promises to be a lucrative destination for foreign investors into the country. The Indian realty sector, if channelized properly, could catapult the growth of several other sectors in India through its backward and forward linkages. However, there are potential constraints for domestic as well as foreign investments in India. Absence of a single regulator to monitor business practices prevailing in Indian real estate market is perceived to be a risk factor by investors. The SEZ guidelines which are issued by the Commerce Ministry are constantly modified, creating uncertainty. Since the liberalization of FDI norms, significant foreign investments have flown into real estate; but availability of suitable exit options for such investments is still constrained.

Maturity of the real estate markets will lead to infusion of foreign investment and adoption of international best practices by real estate players. Developers will get more organized, and become more transparent to avail opportunities emerging in the market. With the Indian securities market regulator SEBI allowing real estate mutual funds (REMFs) in India, equity investors will have an exit option available to them. All these factors will contribute in making the Indian real estate market more organized and structured, thus providing better investment opportunities.

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