



## THE INDIAN REAL ESTATE SECTOR: AN OVERVIEW

### **Introduction**

The real estate sector is the driving force behind the growth of the Indian economy. It is the second largest employment generator and GDP contributor in the country. In the most generic sense, real estate business means buying and selling of properties (residential and commercial), which consist of land, buildings, natural resources attached, etc. The measures taken by the government to stimulate the real estate market include liberalization in foreign direct investment (“FDI”) (100% investment under the automatic route with certain exceptions), increased transparency, strengthening of information in the public domain via digitization of Land records etc. Based on various reports the real estate sector looks fertile for future growth and the Indian real estate market may touch US\$180 billion by 2020. To adjudge the real estate sector’s critical role in the Indian economy, it may be beneficial to trace its development over the decades.

### **1947 – The liberalization era**

Immediately after India was declared independent (August 1947), the idea of “democratic socialism” was adopted, and industrial development was placed into the hands of the government. The traditional methods of raising funds were ineffective in providing sufficient capital for the real estate sector. Additionally, during such time, the real estate sector was generally unorganized, and its growth was, therefore, quite sluggish. Owing to such shortcomings, the faith in democratic socialism dwindled, and the idea eventually lost its relevance. This loss of faith paved the way for the liberalization policies that were brought about in the early 1990s. These policies gave the necessary impetus to the Indian market, which was now brimming with confidence by the revival of many basic industries.

### **The 2000s (the pre-recession phase)**

By the 2000s, the liberalization policies of the 1990s had completely changed the scenario – India was better integrated into the global market. The early 2000s was marked by a buoyant market with steady growth in real estate demand and supply which resulted in noteworthy contributions to the GDP. Economic activities were on an all-time rise resulting in rapid urbanization. The surge in the demand for housing and commercial spaces greatly boosted the real estate market.

In 2002, the FDI policy, for the first time, threw open a part of the real estate sector (township developments) to foreign investment. This opening was broadened in 2005 to include construction and other allied activities in real estate. As a result of such openings, the real estate sector saw steady flow of foreign investment. Further, the policies of Indian banks to extend finance at low interest rates substantially strengthened the sector.

### **The recession and its aftermath**

However, as a result of the global economic crisis, things slowed down in 2008, and the otherwise booming sector had to suffer a setback. As an aftermath of the crisis, the sector suffered from poor demand and oversupply. Banks withdrew the oft-enjoyed low interest rates, and private players grew



wary of the uncertainty looming ahead. This was supplemented by consumers' loss of faith in realtors, who had begun to dishonour their promises.

### ***The post-recession phase***

However, in the last few years, there has been a noticeable shift in the real estate sector. A market which was largely dominated by the seller, which practice underwent a paradigm shift and the buyer began enjoying a better bargaining position. Although one may observe improvement, certain practices such as inappropriate usage of funds procured for real estate projects still continue to plague the sector. Such practices, particularly in the housing division of the sector, tend to delay the time within which properties ought to be delivered to the customer. As noted by the leading property consultant, Knight Frank, the delay in the National Capital Region (Delhi and the cities around it) has been in the range of 2-2.6 years, and in Mumbai, the same has been around 1-1.1 years.

On the other hand, demands for commercial space have seen a stable rise. Financial and industrial hubs are witnessing an increasing demand for office spaces; thus pushing prices forward. In cities like Delhi, Mumbai, Bangalore, Pune and Hyderabad, the benefits of increased demand are significantly felt. Further, much like its commercial counterpart, the retail division of the real estate market is prospering. For instance, in the first quarter of 2015-16, the retail sector registered the maximum volume of deals.

Notwithstanding the positive changes in India's real estate market, creases, which require ironing, still exist.

In order to iron out such creases, some of the steps taken by the government include the liberalization of FDI in the real estate sector, the requirements for maintenance of digitized land records, the institutionalization of Real Estate Investment Trusts (REITs) and the passage of the Real Estate (Regulation & Development) Act, 2016 ("**RERA**"). The RERA, mooted as a game changer, provides for a comprehensive framework for the working of the sector. It provides for the setting up of tribunals and regulatory authorities, and seeks to improve, generally, the governance of the sector. Further, it extensively covers the rights of buyers and accords greater protection to them. In addition to these initiatives, the government is seeking to achieve housing for all by the end of 2022.

According to data released by the Department of Industrial Policy and Promotion (DIPP), the construction development sector in India has, till March 2016, received FDI to the tune of USD 24.19 billion. Further, private equity investments have also been a vital source of finance for the real estate sector.

With the assistance of the recent policies, opportunities in the real estate sector look bright. One may, in the years ahead, expect a positive change. For instance, the buyer-oriented approach of the RERA may go a long way in ensuring that builders reorient their methodology and take buyer-concerns more seriously.

To conclude, there are hopes that the real estate sector, in light of the recent changes, will overcome its hurdles successfully, and continue to contribute in the Indian economy like it used to do in the past.