

Study of Investor's Opinion about Real Estate in India

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Abstract

Real Estate is one of the fastest growing sectors in India with an annual growth rate of around 30%. Rising middle class and strong growth of Indian sector has been fuelling this industry since last decade. Major growth in the real estate sector for the past few years have been in the tier 1 cities with the growth of services. Cities which have been on the gaining side of this growth are Mumbai, Delhi, Bangalore, Hyderabad, Pune etc. With the shortage of land, even suburbs in these regions have seen exponential growth. Of late development has started in the tier2, tier3 cities too. The key drivers which have been contributing to the growth of real estate sector are - strong economic growth, favorable demographics, easy terms of repaying home loans, rising income levels and urbanization. This study examines the investor's opinion towards the real estate sector. The present study has been collected the data through both primary and secondary data. Further, it examines the investor's preference about the real estate players, in which sector they invest significantly, preferred investment area of different consumers etc.

Keywords: Investor, Real Estate.

Introduction:

India has seen a very high GDP growth in past few years. The growth has been led by many industrial vertical and thus has led to increasing demand of infrastructure facilities. Public spending on road and transportation infrastructure is climbing. This is a key to the government's long-term growth strategy and will serve as a positive stimulus to the construction industry. The fruits of growth have also benefited the real estate sector. The main factors affecting the real estate sector are household income growth, rising

working populations and favorable economic policies. Interest rates, FDI regulations etc.

Real Estate is one of the fastest growing sectors in India with an annual growth rate of around 30%. Rising middle class and strong growth of Indian sector has been fuelling this industry since last decade. Lately, due to economic slowdown and inflation causing rising input prices, hike in interest rates, liquidity crunch and capital price correction has impacted this sector negatively. Long term outlook is still very positive due to favorable demographics, increased urbanization and higher disposable incomes to result in continued demand with the growth areas to look out for are integrated townships and infrastructure growth. The growth would also be fuelled by relaxed FDI norms and introduction of REITs and REMFs.

Real Estate industry in India is highly fragmented, with limited entry barriers. A large number of regional developers, in many cases city focused developers. Most players began as home builders, now executing projects across all verticals. Many few developers have established/ are establishing a presence on a pan-India basis.

The Real Estate in India lacks in corporate governance because of high transaction cost and high cost of informal Funding which leads to tax avoidance and large use of cash. There are incidences of inefficient business structuring to enhance tax efficiency. Also complex regulatory conditions and unclear land titles lead to power games.

VALUE CHAIN IN REAL ESTATE

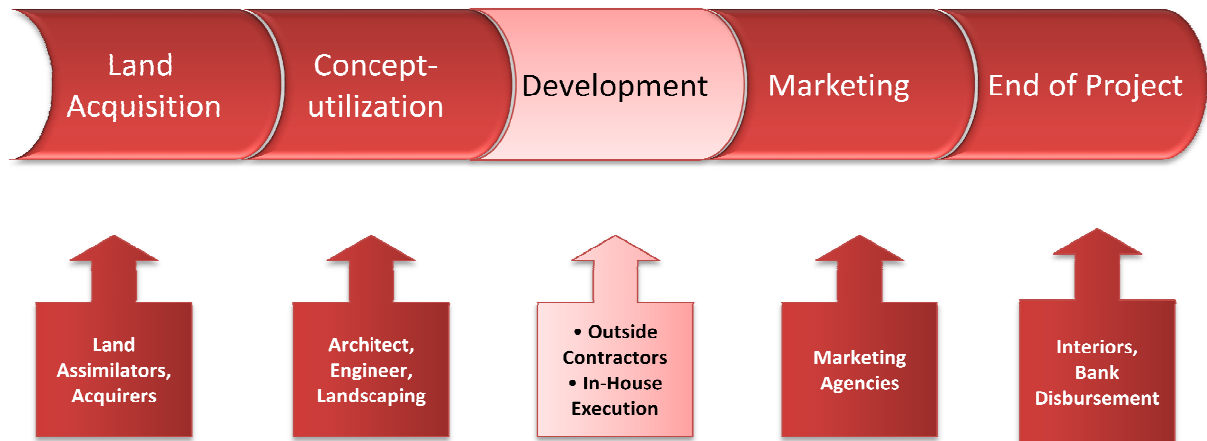


Fig. 1.1 Value Chain in Real Estate

Land Acquisition

The value chain in real estate starts with the land acquisition process which gives the required impetus to the company. Large companies like DLF, Unitech enjoys the leverage of large land banks which provides them with a strategic advantage. All the large companies are now moving towards tier 2 and tier 3 cities to acquire land for their future projects.

Concept- Utilization

This is a phase where in the actual product is designed and the projects are conceptualized. Major companies outsource these activities (Architecture and engineering design) to the well known firms like Hafeez Contractor etc.

Development

This activity consists of the core of project management. Generally major companies outsource this activity to well known construction companies like L&T who have the expertise in construction and executes the projects on their behalf.

Marketing

Marketing plays a very important role in real estate. Almost all the companies keep this activity in-house. This is primarily because of the prevailing competition in the market and the companies do not want to lose the customer edge they gain since the real estate products are high involvement products. The companies take the help of marketing agencies to market their products and understand the consumer.

Post Purchase Services

These services come at the end of the project and are the major differentiating factor between the large and the small players. These services include interior design, bank loans etc. The large players are able to organize and provide better services to the customers with respect to their counterparts.

Sub Sectors in Real Estate:

The key sub sectors under the head of real estate industry in India are:

Residential

Residential sector contribute almost ¹75-80% of the turnover of the entire real estate sector. Prices in this segment have moved two to three times in the last three years in some pockets due to easy availability of house loans and rising disposable income. Although the recent hardening of interest rates has slowed down the sales, but the future outlook for this sub sector seems quite promising. Also, mortgage as a % of GDP, although growing, is well below developed nations and thus has a potential.

Commercial / Office Space

Commercial Real estate refers to Office space; IT, BPO, KPO space leasing continues to boom with 12 million sqft leasing across India; with 6 million square feet in Bangalore, and 7 million square feet Mumbai.. The historical CAGR of this segment has

been impressive 30-45%. The growth in this sector has largely been driven by the continuous growth in IT/ITES industry.

In addition to IT-ITES sector, banking and insurance, biotechnology, and research and development are some of the other fields from where a growing demand for office space is expected. Development is expected to shift to suburban areas, Tier II and III cities due to Tier I cities becoming expensive, and availability of cheaper manpower in these cities

SEZ (Infrastructure)

SEZ forms an important segment of the real estate sector. Government incentives and policies (like SEZ act) have been fuelling the growth of this segment. Number of SEZs which have got formal approval from the government as of 24th January 2008 is ²439. Future prospects seem bright considering government emphasis of developing infrastructure in the country to stimulate growth.

Retail

Increasing consumer expenditure and entry of global players in the retail sector is also contributing to the growth of real estate in India. Especially, growing share of organized retail in India is opening new opportunities for it. ³It is estimated to grow at 35% with about 30 million sq. ft. of available retail space in over 265 mall projects.

Hospitality

The tourism and hospitality sector is growing due to a surge in the number of business travelers and the increased demand for Indian tourist destinations for the foreign nationals. On an average, a foreign traveler stays in Indian for 30 days which provides an attractive opportunity to develop hospitality sector.

REVIEW OF LITERATURE

Schikore. Karla, A. Smith. Mark, (1998) –

The authors formulates strategies to be adopted by corporate real estate departments in to take advantage of tax benefits in order to minimize corporate tax exposure.

P.Buckley. Michael, (1999) – The researcher establishes an eight step strategic plan to evaluate alternative structures for corporate assets which are no longer contributing to return on equity or which may be considered surplus. It also recommends a Special Purpose Vehicle to move assets off the corporate balance sheet.

Worthington .John, (2001) – The research includes that the real estate industry today is moving from traders in real estate to total service providers over the life of a tenant organization. The challenge for the real estate market and facility people is to react to a business model that supports both individual as well as collaborative working that provides flexibility of tenure on one hand and affords adaptability of both space use and function on the other hand.

Stoy.Christian, Kytzia. Susanne, (2004) –

The author uses Management by Objective (MBO) as an instrument for Corporate Real Estate Management (CREM). Therefore, where the corporate strategy centres on cost reduction, CREM must be given the opportunity to control these drivers. This would require the inclusion of CREM in the development of the cross-company corporate strategy, as otherwise the cost targets would have to be restricted to individual cost types (costs recognized in the profit and loss account).

Liisa.Lindholm. Anna, L.Levainen. Kari

(2006) – The purpose of the research is to identify that how real estate strategies can add value to the core business of the firms.²⁶ real estate executives have been interviewed and it was found that performance measures used focus solely on costs and not on value addition.

RESEARCH METHODOLOGY

Type of Research:

For our objective of the research **Descriptive method** has been used in this research.

Descriptive research provide significant insight into *who, what, where, when* and *how*.

The data description is

- Factual

- Accurate

- Systematic

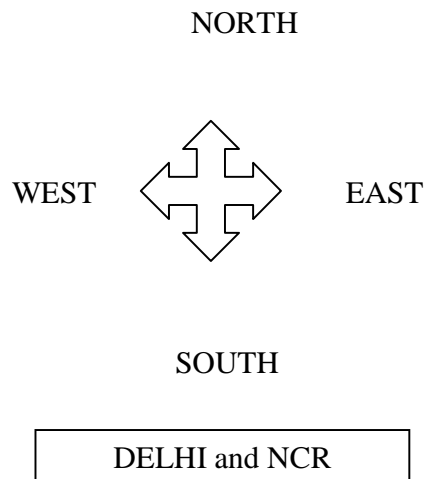
Descriptive research is used when a study involves frequencies, averages and other statistical calculations. Descriptive research is Qualitative in nature.

Selecting a sampling technique_—

The thesis would be on the basis of probability sampling technique

which is stratified sampling. Stratified sampling uses a two step process to partition the population into subpopulations or strata. I have stratified the target population into 4 regions: North, South, West, and East Delhi. And NCR region.

Stratified the target population into four regions:



Sample size – Sample size refers to number of elements to be included in the study. Sample size in this case is 100 investors

The data was collected by using various methods while doing the survey.

Methods of Data Collection:

The methods were:

- Direct observation,

- Communication with people,
- Filling up the questionnaire by meeting investors
- Questionnaires filled through tele-calling

Out of these methods, questionnaire by meeting investors and through tele-calling were the main methods used.

Secondary Data

The secondary data has been collected through real estate websites, DLF reports, and articles from economic times, business standards and research reports by Parkash Gurbaxani.

Data Analysis Tool:

The data that has been collected through the questionnaire was analyzed to understand derive the following results:-

1. To find out the preference of the investors towards various products they invest in.
2. To find out the consumption patterns in Real estate sector.
3. Investor's opinion about prices and future prospects of investing in property

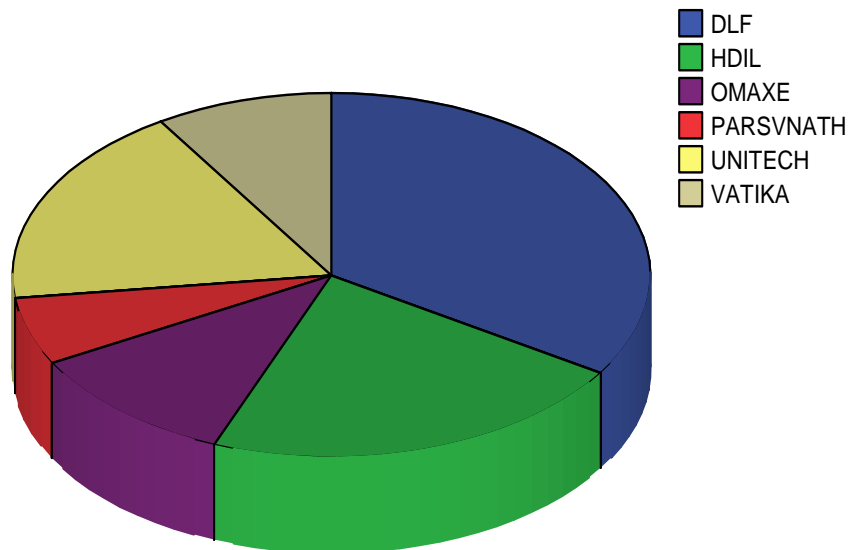
ANALYSIS & INTERPRETATION

Question:1 Out of the following which builder do you prefer the most?

Consumer Preference to Various Real estate Players

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	DLF	34	34.0	34.0	34.0
	HDIL	22	22.0	22.0	56.0
	VATIKA	9	9.0	9.0	65.0
	OMAXE	11	11.0	11.0	76.0
	UNITECH	18	18.0	18.0	94.0
	PARSVNATH	6	6.0	6.0	100.0
	Total	100	100.0	100.0	

Out of the following which builder do you prefer the most



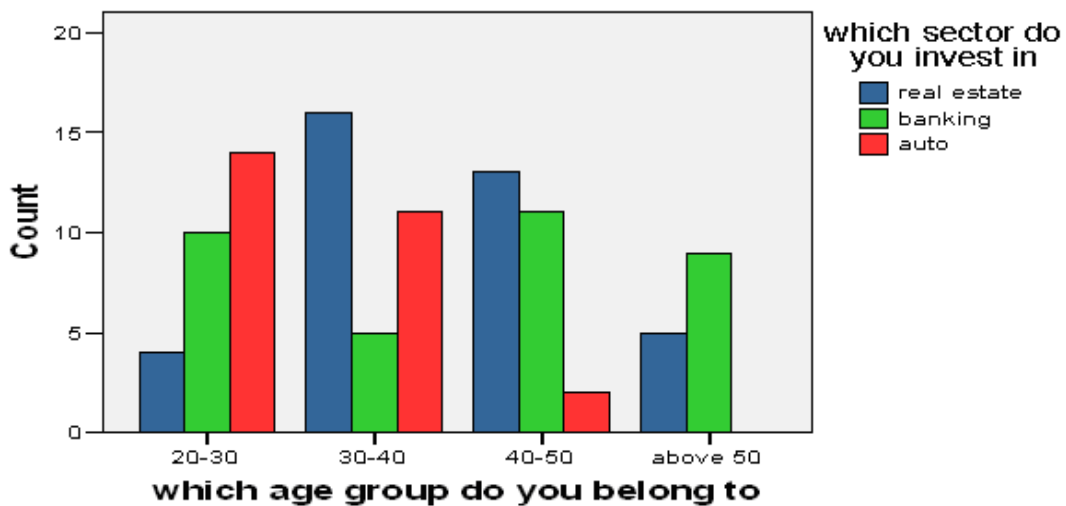
Interpretation: - Out of the present top builders 34% of the investors prefer DLF, 22% of the investors prefer HDIL in comparison to builders like VATIKA and PARSVNATH which are preferred by comparatively lesser number of people.

Question:2 Which age group do you belong to * which sector do you invest in

Investment Analysis of Different age Groups

Which age group		which sector do you invest in			Total
Do you belong to		real estate	Banking	auto	
	20-30	4	10	14	28
	30-40	16	5	11	32
	40-50	13	11	2	26
	above 50	5	9	0	14
Total		38	35	27	100

Investment Preference of Different Age Groups



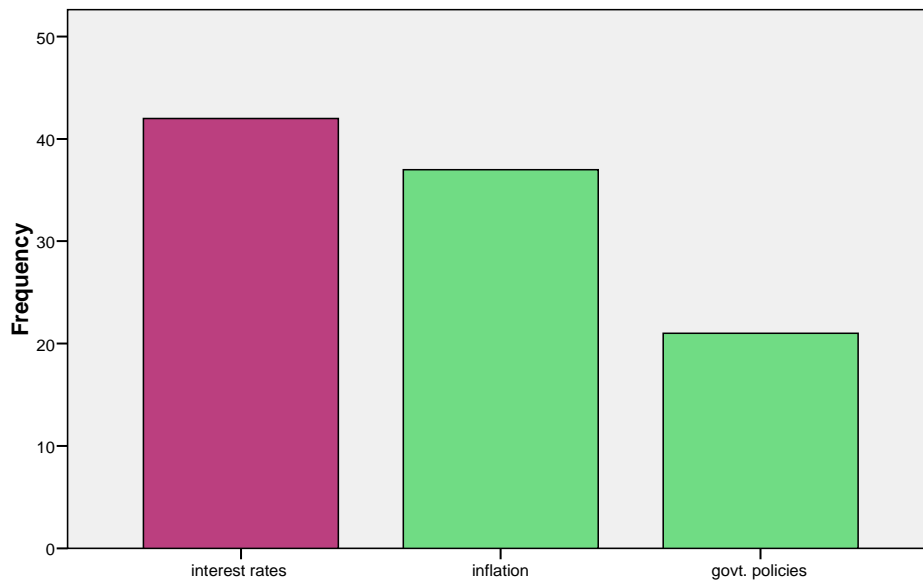
Interpretation: - People belonging to age-group of 20-30 invest mostly in auto sector whereas people who fall between age group of 30-50 invest mostly in real estate sector as compared to older age group who invest mainly in banking sector.

Question:3 According to you real estate is most sensitive to which of the following factors?

Factors affecting Real Estate

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Interest rates	42	42.0	42.0	42.0
	Inflation	37	37.0	37.0	79.0
	Govt. policies	21	21.0	21.0	100.0
	Total	100	100.0	100.0	

Factors Affecting real Estate



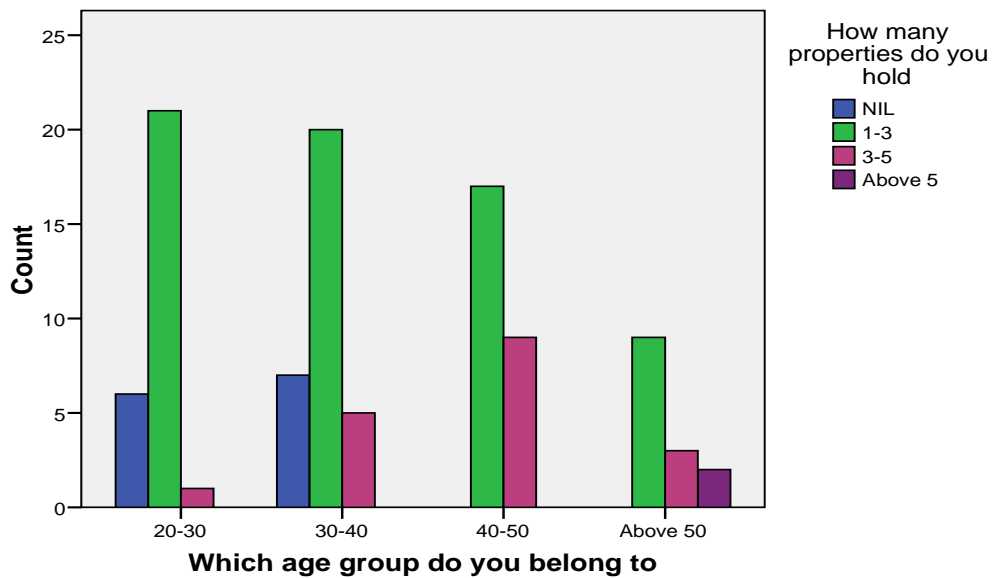
Interpretation: - 42% of the total investors feel that real estate prices are most sensitive to interest rates , whereas 37% of the investors feel that real estate prices are most sensitive to inflation and only 21% of the investors feel that real estate prices are affected by govt .policies

Question:4 Which age group do you belong to * How many properties do you hold

Pre-owned Properties by Different Age Groups

		How many properties do you hold				Total
		NIL	1-3	3-5	Above 5	NIL
Which age group do you belong to	20-30	6	21	1	0	28
	30-40	7	20	5	0	32
	40-50	0	17	9	0	26
	Above 50	0	9	3	2	14
Total		13	67	18	2	100

Pre-owned Properties by Different Age Groups



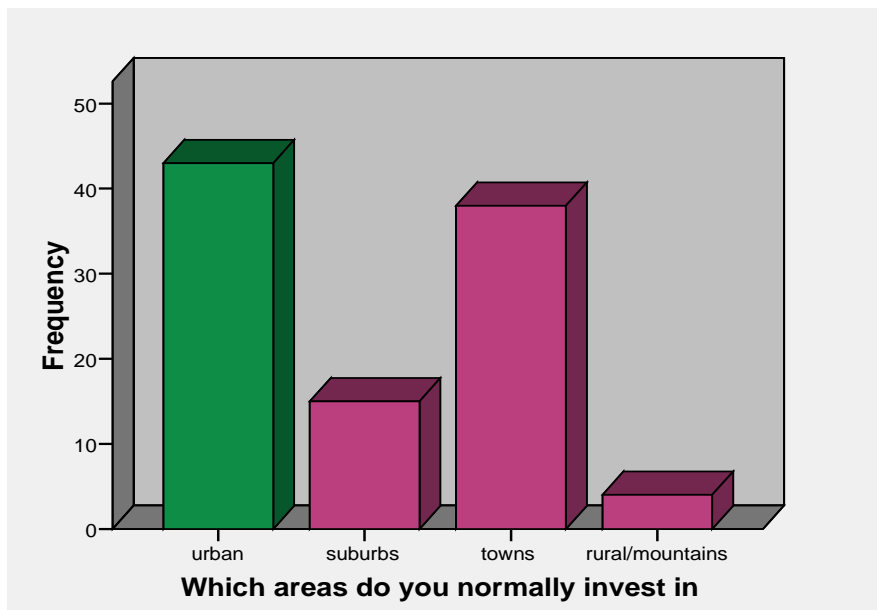
Interpretation: - An investor falling in an age group of 20-30 generally holds between 0-3 properties whereas a person falling in an age group of 30-50 holds about 3-5 properties and only about 2% of the people hold more than 5 properties.

Questions:5 Which areas do you normally invest in?

Preferred Investment Area of Different Consumers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Urban	43	43.0	43.0	43.0
	Suburbs	15	15.0	15.0	58.0
	Towns	38	38.0	38.0	96.0
	rural/mountains	4	4.0	4.0	100.0
	Total	100	100.0	100.0	

Preferred Investment Area of Different Consumer



Interpretation: - About 96% of the total investors invest in Urban areas/suburbs and towns whereas only 4% of the investors invest in rural areas or mountains.

Conclusion

Lot of companies these days are becoming builders but investors should only go for registered ones and keep in mind that the builder he/she has opted for maintains integrity and confidentiality regarding the information provided by the investor. Before making investments in any property an investor should consider the future prospects, rate of appreciation, time frame and the scope of location of making such investments. An investor should talk to other investors and gain knowledge about the builder's reputation and his past performances. Majority of the investors invests in financial products like MF, Stocks and Real Estate and contain around 70-80% equity in their portfolio. People having high income have greater real estate holdings. Investors these days are going for more attractive investment options like gold and art. In the current scenario also 39% of the investors agree with the fact that real estate sector is fundamentally strong and thus would consider it for long term perspective. Out of the sample of 100 investors only 39 investors feel that investing in real estate stock or mutual fund is better than holding property in actual whereas 29 investors feel that if a person has sufficient money it should be invested in actual properties. 42% of the investors feel that real estate prices are most sensitive to interest rates and hence any change in interest rates have a great impact on real estate sector. Investors in Delhi and NCR region mainly invest in urban areas, suburbs and towns. Very few people invest in rural areas and mountains. Investors give lot of weight age to builder's reputation before making an investment decision and DLF is considered to be one of the most reputed builders in the selected area.

References

- [1] PEST factors - Political, Economic, Social, Technological factors
- [2] CREM- Corporate Real Estate Management
- [3] IRR- Internal Rate of Return
- [4] SEZ- Special Economic Zones
- [5] REIT-Real Estate Investment Trust
- [6] REMF-Real Estate Mutual Funds
- [7] BPTP-Business Park Town Planners