

BUSINESS CHALLENGES AND OPPORTUNITIES IN RESIDENTIAL REAL ESTATE BUSINESS IN INDIA

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1. INTRODUCTION:

In last three decades, the global economy has substantially changed. The information technology revolution has given better visibility and transparency to global markets. These days, consumers are more informed and they have multiple market access points both online and offline. The corporate have realized importance of agile and flexible supply chain network on global scale. Investment barriers have almost been removed in major markets. For economic development of any nation, the FDI (foreign direct investment) is one of the major factors in contemporary time. Today, compared to other global economy, India is in unique position because of four reasons. Firstly, it is in 2nd place in term of size of population in the world after China. Secondly, almost 65 percentage of population is below 35 years. (Indiaonlinepages.com, 2016) Thirdly, rapid urbanization is observed in last two decades. The projected urban population by 2031 is of 600 million in India. (Indian Brand Equity Foundation, 2016) The Fourth reason is of stable political condition at central level as the ruling party is having clear majority. With all these reasons, after 2014 general elections, the global view is significantly changed towards India and many developed and developing economies are now considering India as strategic hub for business and investment.

2. INDIAN REAL ESTATE MARKET

The real estate sector in India is being acknowledged as a primary driving force in economy development. There is a positive relationship in terms of growth between real estate and other industries. As the market grows, demands of infrastructural facility also increase. The projected size of the real estate market by 2020 is of US\$180 billion. (ASA & Associates LLP, 2015) The FDI has also substantially increased in this sector in last one decade. In report of DIPP (Department of Industrial Policy and Promotion, India), from 2000 to 2014, the total FDI inflow was of US\$ 23,874 million. The sector is divided in four different sub-sectors i.e housing, retail, hospitality and commercial. (ASA & Associates LLP, 2015) The entry of foreign players in Indian market in retail and other sectors have boosted real estate demand in recent past. The contribution of housing is of 5 to 6 percentage in country's gross domestic product (GDP). (ASA & Associates LLP, 2015) And as the urbanization is of only about 30 % of total population compared to more than 81 percentages in developed countries like USA, huge untapped market is present in India for real estate developer. (United Nations, 2014) The central and state governments have also taken initiatives to fulfill housing requirement of urban and rural markets in India. For fulfilling housing need of economically weaker sections and low income groups in urban areas, "Sardar Patel Urban Housing Mission" is introduced under PPP (Public Private Partnership) model. Under this scheme 30 million houses will be constructed by 2022. (ASA & Associates LLP, 2015) Apart from all these positive developments, this sector is facing several challenges like deficiency in land documentation, fragmented status of the industry, absence of industry status etc. In India, still this sector is highly fragmented and local developer (i.e Builder) dominates the market in most of the states in the country.

3. SCOPE AND OBJECTIVE OF THE RESEARCH

As a country, India is extremely diversified and contains 29 states with different cultures. The real estate sector is very vast and divided into four different category i.e housing, retail, hospitality and commercial. In this research, the primary focus is on residential segment. But as the developers are involved in multiple segments, some of the findings are also providing valuable information of other segments. The research attempts to fulfill following objectives.

1. To know business potential of real estate markets in India.
2. To understand business challenges for real estate developer in residential business in Gujarat.

4. RESEARCH DESIGN AND SAMPLE SIZE

The research is divided in two parts. In the first part, exploratory research design is used to understand the core issues of the research topic. In the second part descriptive-cross sectional-convenience sampling design is used to collect data/ information from different real estate developers of Gujarat. The pilot study of 12 organizations

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is conducted of Gujarat region which are dealing in multiple business like land procurement and/or development, commercial real estate and residential real estate businesses.

5. DEVELOPMENT & TESTING OF HYPOTHESES

The following major hypotheses have been developed on the basis of literature review. The pilot survey was conducted and to test, all three critical hypotheses “One Way Anova Test” (Analysis of Variance) is performed with 0.05 level of significance

Sr. No.	Statement	Result
1	Extensive government intervention is equally observed in all four types of residential and commercial property development projects (i.e Residential new property, Residential old property (re- development), Commercial new property, Commercial old property (re-development)) Ho: $\mu_1 = \mu_2 = \mu_3 = \mu_4$ & H1: $\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$	Acceptance limit: 2.826 F Statistic : 4.436 Ho is rejected
2	In promotion, all traditional tools of mass media are extensively used for sales of residential property (i.e Television, Radio, Print, Internet) Ho: $\mu_1 = \mu_2 = \mu_3 = \mu_4$ & H1: $\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$	Acceptance limit: 2.826 F Statistic : 13.717 Ho is rejected
3	The consumers provides equal importance to all four critical selection parameters i.e Brand image of the developer, Price of the property, location of the site, loan facility Ho: $\mu_1 = \mu_2 = \mu_3 = \mu_4$ & H1: $\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$	Acceptance limit: 2.826 F Statistic : 8.077 Ho is rejected

6. HYPOTHESIS TESTING & DERIVING INFERENCES

Hypothesis 1: Ho is rejected as 4.436 > 2.826. In recent past government has started computerization of land documents and the documents pertaining to property ownership. In case of new residential and commercial property, the task of document processing and approval is comparatively easily than to process documents of property under re-development title. It has been observed that in cities older properties are being demolished to construct multi storey high-rise building with state of the art facilities for resident as well as commercial offices in India. In case of re-development of the property, still many documents are in paper forms with the government agencies like municipality and with the owner. And to process such re-development application extensive verification is being done by the government agencies prior to issue of approval letter for re-development.

Hypothesis 2: Ho is rejected as 13.717 > 2.826. It has been observed that the use of television is comparatively less in India compared to other tools of media. The fragment market might be one of the reasons behind avoidance of national television network to promote real estate business. Very few national players of real estate business are using television to promote their business at national level. The radio, print and internet are being extensively used to promote potential markets by the property developer. In Gujarat, outdoor advertisements in the form of hoardings are extensively used to promote different property locations. It has been found that in Gujarat, a few developers have started taking support of social media to create awareness and also to target potential segments from local markets. They are very positive about social media and believe that in future it will overtake all other media when youth of almost fifty percentage of total population will drive these markets.

Hypothesis 3: Ho is rejected as 8.077 > 2.826. It has been observed that the corporate image of the property developer is one of the most critical parameter for consumer in the process of selection of the property. The consumers give less importance to loan facility provided by developers as they have multiple options for finance in the Indian market. The Indian markets are flooded with private and public sector banks and property loans are easily available if the applicants have decent credit records. The location is also one of the important factors particularly in urban areas as cities are overcrowded due to rapid urbanization.

7. MAJOR FINDING OF THE RESEARCH

- ✓ The central and state governments have taken considerable amount of initiative to keep proper infrastructural development in the country. The IT is extensively used to keep the record in systematic form and also in the proper places. In town planning, governments are playing active role to provide green environment, proper access to facility with wide and well constructed roads and other utility supply. The government also emphasizes on tree plantation and clean ambience to society.

- ✓ It has been observed that in last few years, substantial amount of property development work is done specifically in urban parts of the India. It has been observed in primary research that in Gujarat, in few places supply of residential and commercial properties is more than actual demand. This has created serious pressure to use all types of marketing tools to sell properties to target market. The respondents believe that the situation of demand-supply would be stabilized within couple of years looking at rate of urbanization in India.
- ✓ During survey, the respondents provided information of ANYROR, the web portal developed by the Gujarat Government to provide online details of land documents in local language. To facilitate smartphone user, android base application is also developed by the government. This has facilitated property developers as well as customers in maintaining transparency in their business.
- ✓ It has been observed that the internet and social media are now emerging tools in Indian market to promote real estate sales specifically to target youth and HNI (High Net-worth Individual) clients. During last fifteen years, many portals are developed by the private companies to provide competitive platform to target retail and corporate clients.
- ✓ To make the business more transparent and ethical, cash transactions are banned by the government in all types of property deals. The base rate of the property is now defined by the government in almost all property business.
- ✓ It has been observed in primary research that the raw material rates are highly fluctuating in Indian markets specifically cement price, which has created serious problem for property developer. This creates difficulty in project costing for developer and many times it exceeds the estimated value. The respondents suggest that the government intervention is required to break cartel developed by the cement companies for betterment of the real estate business.
- ✓ In area of human resource, the real estate market is blessed with the supply of competent labor force at lower cost in India. The high end construction technologies are also being used by many developers to expedite the project work with better construction quality. The use of advanced IT enabled project management techniques have started in India. This has immensely supported developer in project management.
- ✓ In supply chain and logistics, it has been observed that in many urban cities in India, heavy vehicles are not permitted in city during day times. This has forced developer to keep buffer stock of essential raw materials for uninterrupted supply to construction side. This thing also creates extra burden on working capital account.
- ✓ It has been observed that the pre-fabricated structures are extensively used by real estate developer as it reduces the project time and cost significantly.
- ✓ For better transparency and to avoid conflict between developer and customers, government of India passed one bill of “The Real Estate (Regulation and Development) Act, 2016” (RERA). This bill has clearly defined role, responsibility and accountability of both parties in business. In primary research, the developers have given positive view for this act. The developer believes that this Act will reduce conflicting issues between buyers and sellers.

8. REFERENCES

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