Chapter 2: Theoretical Framework of Real Estate

This chapter explains theoretical framework of Real estate market. Besides that it also throws focus on to the Real estate segment at macro and micro level to understand the current status of the real estate market.

2.1. Introduction to Real Estate - Definition of Real-estate

The term ‘Real-estate’ is defined as land including the air above it and the ground below it, and any buildings or structures on it. It is also referred to as realty. It covers major three segments. E.g. residential housing segment, commercial offices segment, trading spaces such as theatres, hotels and restaurants, retail outlets covered under the retail real-estate segment, It also cover industrial buildings such as factories and government buildings. Real estate also involves the purchase, sale, and development of land, residential and non-residential buildings.16 The main players in the real estate market are the landlords, builders, buyers, real estate agents, developers, tenants etc. The activities of the real estate sector encompass the housing and construction sectors also.

The legal definition of real estate or real property is land and the buildings on it. Real estate law governs who may own and use the land. This simple concept includes a wide range of different legal disciplines. First, real estate may be either residential or commercial. It can be owned by one person but used by another through rental arrangements. Land can be bought or sold, and due to its high value, there are many local laws that ensure real estate transactions are properly performed and recorded. Land may also pass between family members through estate planning, or may be owned by more than one person. Finally, state and local governments have rules concerning the purposes for which land may be used -- for example, each plot of land must be used according to local zoning laws, and landowners may not damage the surrounding environment.17 Few authors given the various definitions for the real estate as per the use of the property and nature of use of particular real estate and further with a view to engagement of a particular property for the different

16 Definition of real estate as per 10th Plan Commission document
intent, Real estate is property consisting of land and the buildings on it, along with its natural resources such as crops, minerals, or water; immovable property of this nature; an interest vested in this, an item of real property; buildings or housing in general. Real estate is sometimes inaccurately spoken of as a profession, but it is essentially a business. The principal divisions of the real estate business are investment, operation and agency (Kimmons, 2010). These differ from one another according to the aims of the persons engaging in them and the methods by which those persons expect to make their gains. Real estate is often used to refer to things that are not movable such as land and improvements permanently attached to the land (Brueggeman, 1997)

2.1.1. Real estate Market

The term, ‘real estate market’ can have a different mean to different people. As the efficiency of the real estate market is concern, one have to be precise by what we mean by the real estate market. This is particularly important when reviewing empirical studies because their results may be dependent upon their definition and empirical selection of real-estate market.

In economic terms, real estate market can be defined as a market where supply of and demand for real estate meet and where real-estate is traded. The real estate market is typically segmented into various sub-market segments along different dimensions. The most important dimensions are type of real estate, space and time. For an instance; an office building traded in Chicago in 1960 is clearly not in the same real-estate submarket than an apartment building traded in the suburbs of Berlin in 2005. But, again the question arise here is, where are the boundaries explaining these sub-markets of real estate? How close in terms of type, location and time do transactions have to be, in order to be considered to belong to the same real-estate market? Thus, these questions give motivation to the definition and development of the structural concept of real estate market. There are some researchers tried to define the real estate. Corgel et al. (1998), come up with the various types in their research, further they explained various types of real estate exist, each of them posing having their own framework and structure. Main widely used types are: housing, office, shopping centres, industrial buildings and infrastructure real estate. Undeveloped land is a very special type that is quite different from all the others. Each of
these categories is quite unrelated in itself. “For example, it includes both high-rise structured office building category located in central business districts and single-story "offices located in rural areas". More focused look towards the housing category, for example, one can find single unit and multi-unit housing where in the latter case the real estate market can be viewed from the perspective of the individual units or the multi-unit buildings as a whole. The results may be different whether one can consider transactions of individual units or buying and selling of whole apartment buildings. At the individual level of the unit, transactions might differ. Rental agreements and Transfer of ownership are the two most important things. In rental market the main question arises whether only fresh rental agreements represent the real estate market or also existing rental agreements. More level of the market transactions, it can be the single physical object that is traded or a portfolio of objects. Building can again take place at different levels. In the latter case, the portfolio may consist of variety of real-estate. Transactions of portfolios of real estate are always not direct, but in some bundled form. Frequently, it is the company owning the portfolio of real estate that is traded so, other features of company might influence the deal. If company is public listed, trading of its shares on the financial market, can also be considered a real estate transaction. Since the respective sub-markets are more or less related, all these variations by time, type, and space have probable inferences for judging the efficacy of the real estate. It can be argued that in an efficient market the prices at a more aggregate level should fully show the prices at the respective dis-aggregate level. So, the value of shares of companies in real estate should represent the value of their respective portfolios; the price of a portfolio should reflect the value of the property it contains; the price of a building should show the value of rent recovered by its individual units. Parallel arguments can be made for the association between types of real estate, between dimensional sub-markets and over time. Empirical tests of the efficiency of the real estate market typically focus on one of these aspects in one submarket.

2.1.2. Real Estate Economy

Real estate not only includes portion of an individual’s wealth, but also a substantial share of a nation’s economy. For example, real estate share in the national GDP is around eight percent of the total output. If real-estate weakening in value, construction sector, financial
sector, and many more related sectors would also affected and unemployment would possibly rise. Real-estate properties are fundamental part of an economy, thus, variation in the real estate market can causes variation to the many sectors of the economy. Possible reduction in the volume sale of the real estate market can ultimate affect to the price levels of the real estate market. The amount valuation of the particular real-estate property leads to decrease. The rate of interest also gets affected and later the amount of borrowing also gets reduce along with the possible fall in the interest rates.

Besides that, real-estate is a crucial part of a spatial economy. Most decisions of the people and firm dealing in this economy concern about the rent generated from the particular real-estate. Location could be the best suitable example for the spatial economy, where in rent should be ascertained on the basis of the location of the property. On every occasion a firm or a household decides about a new location it has to find a particular property they intended to buy like apartment, house, office or industrial site, etc. to buy or rent, may have to familiarise with the real estate segment. But, also when talking about more aggregate and more precise concepts like clustering of production, interregional transfer of labour or capital, urban hierarchies or urban development dynamics or the underlying activities cannot come into result without the corresponding real estate related decisions.

2.1.3. Types of Real Estate Properties

There are varieties of property types included in the real estate segment and the types of the real estate has been identified and segregated based on the utility and usability of the particular assets.

1. Residential Properties

Residential property types include Single Family Residence Property, which are single units, typically with the attached utilities like separate house with a drive-in garage attached with it.

Duplex Property also a part of residential property structure designed for residential use and sharing a common wall between the two houses, the usage may vary for either for the residential or for the commercial use.
Condominiums Property or condos are identified as an apartment that are separately owned with the common facility attached with it for the use of entire members of the apartments like shared parking facilities and many more.

Another property type is Town House Property which includes doubled storeyed row house, with common walls. Attached living room there in the classic town houses.

Manufactured home property included in the factories for the purpose of the residence of the work force of the factory

A Patio homes normally contain 3-4 homes in each structure and may have an open backyard space. It is a single story home with one joint wall and a courtyard towards the back facing the shared area.

Lofts are usually found in the city centre and have high elevated roofs, huge windows, metal stairway and cement floors, but no plot.

2. Commercial Properties

Commercial property includes the property mainly utilised for the purpose of the use of business or commerce, it includes the property like corporate offices which includes a single room office to the multi storeyed office structures.

Multi storeyed building attached to the road side mainly used for the commercial purpose are identified as complexes, which further includes the office or row of offices in a single complex.

Mixed-use properties are the properties utilised for the dual purpose which includes business as well as the residential use. Use of the property may be varies as per the requirement.

Multi-family property are the multi storeyed building by a family or a group of families where there are few living rooms along with the commercial offices with the shared facilities like foyers, doorways, walkabouts, lifts, and staircases.

Rooming house properties usually have not more than twenty fully furnished units with temporary common bathroom and kitchen facilities.
Mobile park homes are a mixture of single as well as double spacious houses, sited in decent neighbourhoods with at least three-fourth occupancy. Facilities offered based on the surroundings of the property.

3. Retail Space

Retail space includes the properties mainly utilised for the purpose of the retail stores and outlets. It represent some time cluster of outlet established as a retail market, it includes Healthcare Properties like nursing homes and hospitals, a license is mandatory to run the facility. The space of the health care property mainly utilised for the health related facilities Restaurants are built for the offering foods to the public mainly include the canteen and road side restaurants. Bed and Breakfast inns are normally single buildings family units meant for temporary boarding. Hotels generally include all necessary facilities like shared and separate bed-rooms for the over-night stay and for the routine stay. It also includes constructions that provide a suite of services and facilities of the hospitality industry. Hotels are classified as either Restricted Service or Complete Service. It can also be affiliated to some national licence chain. Day Care centres provide disabled, and childcare, elderly care services; or knowledge centres, such as playschools and playgroups. They have rest rooms, playrooms, and simple kitchen facilities.

4. Industrial Property

Industrial mainly includes the space utilised for the specific purpose of an industry for the purpose of the pure commercial activities which includes storage of material and other spare parts rooms of the industry. It includes, Warehouses, commercial structures built for storage of goods and includes massive blocks in that for the further separation of material. Mini-warehouses are compartments that are rented for private storage. Flex space is a mixture of industrial-office property. It is an arrangement that has a display and workplace area together with the industrial area.

5. Manufacturing Property

Manufacturing property majority use for the purpose of the production of the goods and parts of the various machineries. It includes, Cold storage property specialized structure
that makes available storage for the perishable goods like foods, fish and beef in a chilled or icy situation.

Automotive structures are built explicitly for the automation and automobile industry and usually have a small car lifts, overhead doors and office cubicles. They further include repair units, tier fixing facilities, used car hubs etc.

6. Vacant Land Property

Vacant land is widespread with ranchers, cultivators and farmers. The main use of the property is for the farming and cultivation of crops. The extent of property is considerable and the price high.

2.2. Major Segments of Real Estate

Real-estate market is a mixture of properties mention above in the type of the real estate property segment. Further entire real estate sector have been divided in to the segment as per the characteristics and usage of the property. Like the housing and shelter covered under the residential real estate segment. All kind of properties involved in the business purpose are considered as a Commercial Real estate segments which covers Offices, Shops etc. Multiplexes and malls are covered under the Retail real estate segment and Production units and manufacturing plant (Including SEZ) are covered under the Industrial real estate Segment. Hotels and resorts covered under the Hospitality segment of real estate and rest of the property like free space and free hold land covered under the miscellaneous Real estate Segment. The following diagram shows the summarized view of each segment of real estate.

1. Residential Real Estate:-

The Term Residential Real estate basically covers the Property that has been utilised for the residence or the shelter purpose. Residential real estate includes both new construction and resale homes. The most common category is single-family homes. There are also condominiums, co-ops, townhouses, duplexes, triple-deckers, quadplexes, high-value homes and vacation homes.
2. **Commercial Real Estate:**

Commercial real estate is any non-residential property used for commercial profit-making purposes. It includes stores, malls, office buildings, and industrial parks. It also provides venues for companies to carry out daily operations and cater to customers conveniently. Companies generally lease commercial real estate in order to maintain cost-effectiveness and flexibility. Real estate investment trusts (REITs) are most often compiled of commercial real-estate property as opposed to residential real-estate.\(^{18}\) Thus, Commercial

---

real-estate confers use of land or building intended to receive profit form the acridity carried on that

3. Retail & Industrial Real Estate:-

Retail and industrial real-estate both are combined considered as a part of 'commercial real estate' retail and industrial real estate are the sub-categories of commercial real-estate.\(^{19}\)

Retail real-estate is a commercial zone property used fully for commerce and business purposes of retail segment; it includes actual selling of the product, rather than manufacture - retail malls, retail stores, shopping centers and shops all clustering under the retail umbrella. An industrial real estate is defined as a property used for the manufacturing of goods, and can be either in a form of a factory or a plant. This is categorized for light, medium or heavy industry. It further includes things such as garages, warehouses and distribution centers etc. Generally, industries that occupy commercial real-estate often lease the space of it. An investor usually owns the building and receives rent from each business and operations thereon. There are four primary types of real estate leases in the retail segment, each demanding different points of responsibility from the owner and the tenant.

Single-net-lease - occupant is accountable for paying rent and property taxes for the property holds.

Double-net-lease - occupant is accountable for the payment of property taxes, rent and insurance.

Triple-net-lease - occupant is accountable for the payment of property taxes, rent, insurance and maintenance.

Gross-lease - occupant is only responsible for rent; the other expanses borne by the landlords.\(^{20}\)

2.3. Introduction to Indian Real Estate Sector

The real-estate market has a development and enlargement phase since 2002, after it began from a consolidation stage from the improvement of late 1990s. Moreover, it becomes an

\(^{19}\)http://EzineArticles.com/7287231

\(^{20}\)http://ezinearticles.com/?The-Difference-Between-Industrial,-Retail-and-Commercial-RealEstate&id=7287231
attractive segment which is considered to be one of the growth engines of the Indian economy. As the study carried by (Review, 2010) revealed that, property market of India varies considerably from several other markets in the globe. It is very large, diverse, complex, fragmented, and experiencing rapid growth. The economy of the nation is growing rapidly after such consolidation stage, and demand for many types of real-estate is raised because of such rapid development. There are few major foreign players in the hospitality, office, retail, IT/business parks, and industrial real-estate sector. There is a limited presence of foreign players in residential real estate segment. The important growth factors that driving demand are strong, including exports, GDP growth, urban growth, foreign direct investment, population growth, income growth (primarily focus to the middle class group), and increasing disposable incomes in the hand of consumers and investors. In the years of consolidation, the alteration of the real-estate sector of Indian has been less or more naturally driven by constant development of the business and economy, growth in incomes and enthusiastic supply response in the real estate market. These indicate the two-way association between both the Real-estate industry and the growth of the economy. Few other factors also come out to govern the growth of the sector like active Investor participation in the real estate sector leads to the variations in the market and pricing situation. Investor preferred the real estate segment is one of the less-risky and attractive return oriented in comparison to the other market which, leads them to capitalise in the sector regardless of the fund they have. Investor wants to invest their funds in real estate sector of India seeing one of the immerging destinations for the real-estate investment and for the development and return purpose too. This sureties themselves a secure a better return throughout the investment period.

More investment in the sector makes it composite and exposed to countless uncertainty in comparison of other Industry business and therefore, because majority real estate price and market fluctuations are driven by the market demand and supply. Further it is considered to be one of the pure investor driven business nowadays due to its unpredictability. A research of (Singh, 2009) they have studied that Real-Estate is a very widespread theory and it is highly influenced by the macroeconomic variables like FDI, GDP, Inflation rate, Interest rates per capital income and employment of the nation. The most important factor in Real-estate is location. It affects the returns and value of the Real-estate. Further study carried by
(P. Sanjay Sarathy, 2011) on opinion leaders concluded that opinion leaders compared to non-leaders are prejudiced by, social networking, exposure to media sources, innovativeness, product knowledge and usage information technology in the real estate market. Opinion leaders are inclined by the internet means and most of them more interested in social involvement. They also used to read trade publications on consistent updated new products. These findings are crucial to businesses that incorporate segmentation and targeting opinion leaders as part of their real estate promotion strategy.

(Nallathiga, 2010), concluded the development pressure on cities is increasing and particularly metros are sharing more burden. Growth of urban areas and population both are the important determinant in the real estate segment. The development of cities dependent on the availability and delivery of better urban infrastructure services. However, resource requirements of urban infrastructure are much more and hence create a great challenge to fulfil. Also, the development of urban infrastructure including basic social amenities and support services is itself much more money and time consuming. Alternatively, infrastructural investments are essentially cumbersome in nature that requires huge investments of funds by the government.

### 2.3.1. Growth of Real Estate in India

The Indian economy grew at 7.3% during F.Y 2014-15, higher than the forecasted GDP rate of 6.8%, and it was slated to clock a GDP growth rate in the range of 7-7.5% in 2015-16. Real Estate as a sector is the second largest employer, after agriculture and constitutes almost 6% of our GDP. If this momentum continues, along with a conductive business environment and policies, the country will be poised to attain double-digit rate of growth in the coming years.

In India, urbanization is the biggest growth driver for real estate, which is fuelled by growth in business environment in the country and it is estimated that around 10-12 million people getting urbanized annually. Further, the government is backing the sector with several initiatives like a push to develop 100 cities into smart cities, initiatives like “Housing for all by 2022” for a growing population in both urban as well a rural India backed by both financial and regulatory support for the buyers and developers. In a falling interest rate scenario with the GDP of the country growing at the fastest pace among the major
economies and an easy business environment which is being pushed by the government to bolster the “Make in India” initiative, the demand for assets across the sector may see gradual revival in the next 3 years.

2.3.2. Trend in Indian Real Estate Sector:-

A Report by CIDCI (2006-2007) released that the 10th Five year plan was the policy paper for the economy for the next five years (2002 – 2007) had for the first time incorporated a chapter on Construction prepared by the government of India. This shows the prominence given to the Industry by the Government of India. Further the stated plan inspires total investment is Rs. 4,081,700 Cr. with a growth rate of 8% in GDP. To fulfil the purpose the private sector investment is 2,476,100 crore. and public sector investment is 1,1212,802 crore introduced in the construction and real estate segment. Past experience shows construction sector accounts for 40-50% of the investment. This means a figure of about 4,00,000 crore every year or 2,000,000 crore in the next five years. The real estate market of India expected to mark US$ 180 billion by 2020. The housing sector contributes 5 to 6 percent to the country's gross domestic product. Also, during the period of year 2008-2020, the market of real estate sector is probable to increase at a compound annual growth rate (CAGR) of 11.2 per cent. Commercial, hospitality and Retail real estate are also growing significantly, providing the much-required infrastructure for India's growing needs.(Corporate Catalyst, 2015)

Real-estate sector of India witnessed potential growth in recent years with the upward move in demand for residential and office space. Few major investments in this Indian real-estate sector are remarked as follows:

Assotech Real-estate firm had tied up with Lemon Tree Hotels to manage its serviced residences. First project of 210 apartments under the brand name of Sandal Suites would have been launched in 2015 in Noida. The companies should further launch 8 to10 parallel projects in a cyclical manner during the next seven year period with an approximate investment of Rs 8000 - 9000 million (nearby US$ 129- 145 million).

A big real estate player Blackstone Group LP is ready to become the largest owner of commercial office real estate in India after acquisition drive of three-year. it invested US$
900 million to purchase prime assets. It has acquired 29 million sq. ft. of office space in cities like Mumbai, Bengaluru, Pune and Noida on out-side of New Delhi.

L&T Infra Finance Private Equity (PE) plans to invest Rs 37,500 million (US$ 607 million) in combined fund includes overseas and domestic fund. It plans to launch a real estate fund.

Blackstone Group purchased IDFC Alternatives Ltd’s two real estate firm. The assets include special economic zone (SEZ) in Pune and an information technology (IT) park in Noida. It cost to the company Rs 11,000 million (US$ 178 million), as an enterprise value for the firm.

Goldman Sachs plans to build a new campus in Bengaluru that can accommodate 9,000 people and it cost to company around to invest Rs 12,000 million (US$ 194 million). The new campus is being developed in collaboration with Kalyani Developers in Bengaluru.

Snap deal and Tata Value Homes have entered into a strategic partnership with intent to sell the apartments on its e-commerce platform. This is the first occasion where an e-commerce company has tied up with a real estate venture. (Corporate Catalyst, 2015)

2.4. Trend in Segments of Indian Real Estate:-

India’s macroeconomic fundamentals are strong. The changing economic profile augurs well for all segments of the industry. The various factors driving Real Estate in India are (Ernst and Young, 2005 and Cushman Wakefield, 2008):

- Residential – changing demographics and access to cheap credit;
- Office Space – information technology and business process outsourcing;
- Retail – new retail formats and entry of global brands;
- Hotels – domestic business travel and domestic tourism; and
- Industrial Warehouses – organized retails and organized logistical services.
2.4.1. Trend in Indian Residential real estate:-

The residential real estate segment of India comparatively more progressive than the other real estate segments. It claims around 80% share of this sector (Source: JLL). The major growth drivers of the sector are rapid developments of cities in India and rapid urbanization process which supports such developments. Along with that rising population in urban area and shifting populations from the rural to urban area, this leads to rise in the demand of the real estate especially in housing segment.

The mentioned table- 2.1 shows the trend in residential prices across various cities of India, it further remarked that, there is a rapid rise in the Residex in major metro’s of India. This includes metro cities in India. It is because of the attraction towards the shift in a metro cities to avail the modern amenities and facilities which might not available in the rural infrastructures.

<table>
<thead>
<tr>
<th>Table-2.1- Housing Price Indice in Major Indian Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2007</strong></td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>Mumbai</td>
</tr>
<tr>
<td>Delhi</td>
</tr>
<tr>
<td>Lucknow</td>
</tr>
<tr>
<td>Kochi</td>
</tr>
<tr>
<td>Kolkata</td>
</tr>
<tr>
<td>Hyderabad</td>
</tr>
<tr>
<td>Bangalore</td>
</tr>
<tr>
<td>Ahmedabad</td>
</tr>
<tr>
<td>Pune</td>
</tr>
<tr>
<td>Chennai</td>
</tr>
</tbody>
</table>

RESIDEX is a housing price index updated quarterly by National Housing Bank (NHB). NHB, the Apex level housing finance institution wholly owned by Reserve Bank of India (RBI), regulates activities of housing finance companies (HFCs) in India. NHB Residex tracks residential property prices in 26 JNNURM cities with the starting index value of 100 and 2007 as the base year. Residex tracks prices over a period of time by dwelling size (small / medium / large) and location (city / zones / locations). Data on housing prices is collected from diverse sources such as survey of real estate agents, CERSAI registry and housing prices being collected from banks & HFCs based on home loans sanctioned by them.


1. Demand and supply Scenario:-

The scenario of demand and supply in residential segment shows the slight downsizing trend during the year 2016-17 in comparison to past few years. In oppose to that several
metro’s like Ahmedabad, Bengaluru and Mumbai shows the quite good residential segment demand. After the crises of 2007 residential segment sales has for the period of several years shows the declining demand in the housing segment of the real estate. This shows that developers slowed down their pace in the direction to launch of new schemes of the real estate. This sales also been affected by the changes and updation in the new real estate Regulation and Development Act 2016. With response to this decline in the demand of the segment supply from the real estate players also been reduced. As per the data released from India Brand Equity Foundation (IBEF), the demand from Major 8 cities like Ahmedabad, Mumbai, Chennai, Pune, Delhi (NCR), Bangalore, Kolkata and Hyderabad for middle and higher income group buyer have been reduced gradually as seen in table - 2.2.

**Figure-2.2 – Sales vs. Residential Real estate Launches in India**

Further the mentioned figure-2.2 represents that the supply was 475 mn. in the year 2010 against the demand of middle income group and high income group of buyer of 350 mn. It seems to continue for a while and up to several year it was stable demand during the year 2010-2013. But from the year 2013 it has been observed a diminishing trend in the demand of housing up to the year 2015. This is caused by the market fluctuations and major correction that has been taken place in recent years. In the year 2016 demand of the housing again rose against the supply because of introduction of the buyer in the segment and it
shows the over demand position in the year 2015 and 2016 which reflect the limited supply against the rapid rising demand for the housing in categories of middle and higher income group.

Real estate especially housing segment in major cities has primarily been perceived as an investment avenue against its traditional use of only shelter purpose. Moreover this segment is considered as a less risky segment in a view point of the real estate buyer and that can be the most appropriate reason for the major investment flow in the real estate segment in comparison to the other financial market investments. This sector gaining popularity in all the income group day by day.

Figure-2.3 – Demand Supply Analysis 2016-20 (Housing Segment)

Mentioned Figure-2.3 shows the research statistics of Cushman & Wakefield including the future demand and supply of the segment. Further this is observed from the graph that demand for the Middle group housing will be more in comparison of lower and higher income group of investments. More precise look to the mentioned figure concludes that the demand and supply scenario of the HIG and LIG will be lower in comparison to the MIG group of buyer. This is because of the rising population in the Middle income group and more liquidity in the hand of the real estate consumer. These demand also represent the attraction towards this sector which might cause by the shifting population from the rural to urban area.
Such demand of the housing sector also been enforced by the quality of facilities offered by the players in this segment. Another reason could be the rapid construction and timely completion and few other reasons like changing trend in population about the real estate property. Investors and buyer in this modern market observe the quality of service offered by the developers in the real estate segment.

2. Residential Real estate Segment detailed Outlook

Residential sector of real estate mainly influenced by the legal and regulatory changes. Such changes in the structure of the real estate market can change the cost of housing too. Post-introduction of Real Estate Regulation and Development Act (RERA) shows the revision in the housing segment. Few new regulations under recent regulatory act includes disallowing the general practice among many developers adopts before the launching projects without having necessity approvals from the local authority, before starting the procedure for real estate developer need to show the detailed layout to the authority and have the necessary approvals before launching the particular real estate scheme. This will lead to bring the variation in the price of the real estate as well as demand of the particular real estate.

Figure-2.4 – Housing Loan Scenario (Bank and HFC’s)
Further, to curb the corruption and unethical move adopted by some developers’ authority imposed a policy of depositing 70% of money of a particular scheme in the specific bank account pertaining to that scheme only. This can be used only for the reserved project. Also authority restrict the variation in the plan layout without making aware to the buyer of a particular assets, this will provide the power in the hand of the buyer.

Housing sector expected to experience large scale consolidation. Small scale players would face the difficulty to maintain minimum cash requirements due to several restrictions on pre-sales activities of the developers by the new regulatory act. Further this sector make compulsory disclosure of all material fact to the buyer before the approvals from the authorities and need to take several pre approval steps to get their scheme approved from the authority.

Growth in the housing segment caused during 2017 become stagnant because of the following

Major cause of the stagnant market condition of the real estate is launch of demonetization policy in early 2017. This make somewhat fear in the mind of high net worth investors and it also restricted them from such large investment

Another hit to the private player is active government initiatives in new fresh home schemes for all categories of buyers. Like in Gujarat recently there was a two big launches by the government like “Mukhyamantri Aawaas yojana” and “Pradhan Mantri aavas Yojna” , which builds house for all type of buyers as per their income group. HIG, MIG and LIG types of homes launched suddenly by the government at an effective and compared least cost from the private players in the sector. This schemes from the government provided better infrastructural facilities along with all necessities to the investors and buyers of the housing segment. That attract to the investors in housing market.

On the other hand government also started several schemes for the Urban development and for the people below poverty line. This scheme is EWS (Economic weaker section) schemes. This reduced the number of home buyers in the private segment and private occupancy rate has been reduced dramatically and that reduced the income of rent. This reduced income of rent and vacant property for the real estate investors who owned that
property forced to restrict investment in the housing sector because of less incentive from the market.

Market also faced declining demand due to lesser liquidity on hand during the demonetization period. This indicates the demonetization impact clearly on the real estate segment. Demonetization announcement restricted people to more withdrawals from the bank and greater storage of cash. This leads to lower liquidity position and ultimately affected to the real estate investment.

2.4.2. Commercial Real-estate in India

Commercial real-estate segment trend in India much contrary to the residential segment has witnessed sustained demand during 2016, primarily from industries like Consulting, ITeS, Telecom, BFSI and E-Commerce etc. The demand was moderately counterbalance because of scarcity of quality commercial spaces in metros like Chennai, Pune, Bengaluru. (Source: JLL). The “Make in India” move from the government of India is providing a major boost to real estate segment like development of industrial infrastructure and assets and logistics property. This is also a part of the commercial real-estate. There is improved attention in these segments from various developers for new developments and funds/investors for the investment as mentioned and reported in CARE research agency Report 2017.

Figure-2.5 – Commercial Space Supply (Top 8 Cities of India)
1. Demand and supply Scenario of Commercial Real estate

In comparison to the other real segment commercial real estate pace is bit slower but having strong fundamentals, the last few year shows the lesser fluctuations in the commercial segment demand in comparison to the rest of the real estate segments. Further rapid development in the nation and ease of business policies in India made commercial property segment more comprehensive and attractive one. This leads to greater demand in the commercial segment because of entry of new business investors in India.

The main cities of India including major metros of India show a great increase in the commercial segment demand and supply. Growth of Information Technology and Outsource segment also required more and more developed offices and infrastructures in terms of commercial real estate. This plays a crucial role too in the development of the segment. Foreign Direct investments in India in different forms like direct investment in the business or investment in the property projects build the fundamentals of the Indian commercial segment and making it stronger.

State like Gujarat has driven the more investment in commercial segments because of the development in terms of industries and new business opportunities. Gujarat now a day becomes the attractive destination for the business and corporate investors. Especially cities like Ahmedabad, Vadodara, Rajkot and Surat developed more industry infrastructure to create a business opportunities.

Gujarat moved ahead to provide steeped infrastructural facilities in terms of development of road and highways, also along with that it try to develop the corporate hub. Recently Gujarat government started the new corporate area called Gift City near to Gandhinagar city. This will attract the corporate offices and head quarter to maintain their offices. This area specialise for the Information technology and financial companies so it recalled as Gujarat International Finance Technology City. This city has its unique characters which can attract to the Information Technology companies and financial companies to establish their Corporate offices in it. It is considered as one of the brave and great move from the government of Gujarat for the growth and development of the commercial real estate segment.
2. **Indian Commercial Real estate Growth Scenario:-**

The development phase of real estate market has already been started happening with measures like implementation of Real Estate (Regulation & Development) Act, interest rate stability, and relaxes in FDI norms. Further brave move of the demonetization from the Indian government makes it healthier than ever before and stabilise the market fluctuations which was caused by the bubble trade in the real estate segment. During the year 2017, the commercial real segment of real estate dignified to see lot of attention particularly from the investor specific. India having fastest growing emerging economy. Major real estate funding comes from the private equity. This in turn helps to the development and growth of the segment, also provides much more liquidity in the segment. This all cause to the development of better commercial infrastructure and leads to attract more and more business and market opportunities. Further, Real Estate Investment Trust is a company owns or finances income-producing real estate. Modelled after mutual funds, REITs allow investors to invest their funding in large scale property portfolios and in return they earn a good share of the income produced through rentals generated on these properties – without actually having to go out and buy or finance a property.

Moreover to that several other growth drivers of the commercial real estate segments like availability of market space, availability of knowledge base, better location or better sites to establish the commercial property have a significant influence on the development of commercial segment of the real estate.

**Figure-2.6 – Sectorial Leasing- Commercial Real estate segment**

![Sectorial Leasing Chart](image-url)
Moreover cities like Bangalore, Mumbai, Ahmedabad, Hyderabad and Noida are considered as popular destinations for the business like IT, ITeS and Outsourcing consulting activities. Interestingly, as a new trend, IT companies who used to build/buy the offices for their business and operations to reduce the big cost of the rent and lease amount. Lower grade office spaces may find it difficult to find occupiers other than markets like Bengaluru, Hyderabad, Chennai and Pune. Developers and owners of these spaces may have to upgrade and standardize their properties to be RERA compliant spaces. This is an industry-wide change and as the global business for IT companies improve, they may going forward lease more spaces to ramp up operations. Thus commercial segment feels a greater change during the year which is the indicators of growth in the commercial property segment.

Leasing trend is popular in the commercial real estate segment to avoid the large investment behind the development of the business infrastructure at initial phase of the business, further it will provide an exposure to the business growth and give a chance to business to utilise more funds behind the growth of business rather to invest in the infrastructural facilities. A possible interference in commercial space leasing business could be a concept called “co-working spaces”, which is still in its initial stages, but is steadily picking up in developed markets like Mumbai. Co-working spaces are fully functional offices, shared by professionals are offered at a zero setup cost at the initial phase of the business and help commercial segment for the balancing this pace of development

2.4.3. Retail real-estate in India

Figure-2.7 – Retail Real Estate Absorption Scenario
The Retail real-estate segment provides the platform to the nation for carrying commercial and other facilities which can generate the business. The best example of the retail real estate segment is the shopping mall, this provides all basic requirement of a household at one place. Other retail segment property like Theatres and other entertainment places. They provide the entertainment and recreational facilities at one place. This segment of the property market witnessed the stagnant move in the last decade as no major fluctuations observed in this segment.

The Figure-2.7 given above shows addition of new-retail spaces (new completion) and net absorption of retail spaces in major cities. Further Net absorption is an amount occupied in the end of a period minus the amount occupied at the beginning of a period and takes into consideration space vacated during the period. New completion refers to the new-malls and retail space added to the existing rental space inventory during a period. The mentioned Figure shows the reboots trend in the retail segment after the year 2014 which was including the least occupancy in the retail real estate segment. Gradually with the time being trend shifted in the retail property segment and it shows that rapid rise in the occupancy of the retail space.

1. Retail Real estate segment Market Situation

A real estate segment trend majority influenced by the modernization of the people. Now a days people more attracted towards the malls and multiplexes because of the better infrastructural facilities along with the shopping. It also provides all in one services. Some retail space including entertainment and recreational facilities in it. There is an indication to have an enormous demand for great superiority retail spaces among the markets. One of major factors for this demand is permission for 100% FDI in single brand retail, where a number of international players have entered in to the Indian retail markets at a time when the middle and working class segments are growing. Players from Apparel brands from across the globe along with luxury product brands chose to set up stores either by themselves or by forming partnership/licensing Indian companies and set up their retail stores. (Source: Cushman & Wakefield). Destinations like developing cities would be the more popular amongst these retailers. Further As per the report of (Cushman & Wakefield Research) during the year 2016, which seemed to be a turnaround year for retail business,
saw 10 malls being launched in the major cities amounting to 5.31 m.s.f. of mall space. The retail space supply increased dramatically during the past few years as change in the fashion and generation. People are now more style centric and looking for the brand segment for their routine requirements, so in this developing situations retail real estate can spread its wings towards development. Some Players of retail segment have innovated on their projects come up with a mixed developments instead of making retail-only spaces like a traditional retail real estate. It includes Office-Retail complexes, which found favour with retail ware houses to establish their brand retail stores, it guaranteed higher attraction of the people and prospects and more viewership compared to a traditional retail only store. These ORCs have retail stores at the ground and lower floors; and office spaces at the higher level. This further can useful to control the operations of the retail stores.

Indian Retail segment becomes the growing segment as with the rapid development of the nation and infrastructural growth of the nation. Though Demonetization has hit the retail community to an extent, but at the same time, the drive also seems to have ushered in some benefits to the segment due to implementation of digital transaction friendly nature of high-end retail stores. This also reduced the additional load of maintain the stocks and accounts as everything now becoming digitalized gradually. Retail segments like retail garment and Food and beverages stores gaining more and more popularity amongst the public. The recent retail chain D-Mart has successfully spread its wings in India and becomes more popular in many cities of India.

2.4.4. Trend in Private Equity in real-estate (PERE) in India

Figure-2.8 – FDI in Indian Real estate
Private Equity in the Real estate plays a crucial role as it works as a fuel for the real estate development and growth. Major real estate development only came from the private equity funding. Private equity in real estate segment will reduce the level of risk rather than fixed cost of interest they have to pay for the debt. Funding in real estate segment either through debt which entails higher interest cost. Another Funding through equity is uncommon but is one of the avenues. The sector opens the door for the investors by allowing 100% FDI in in real estate segment. Global private equity players have been steadily investing in real-estate sector of India with an aim to urbanization and industrialization theme. Data from a Cushman & Wakefield report states that Private Equity investment in Real Estate (PERE) in India increased 20% to US$ 4.2 billion from US$ 3.6 billion in FY15. Investment from domestic investors across real estate segments constituted of 63% in residential projects, 20% in office projects, and 12% in mixed use projects and rest in retail.

The most of funding in the real estate market are at project level and start-up level. Foreign investors mostly invest in the form of equity due to regulatory restriction on investment through debt. An insight of the real estate segment revealed that amongst the top cities of India, Cities like Mumbai topped in gaining the real estate investment from the private equity and seeking development in the segment. The main cause of this investment is real estate return. The return generated from the other market like from the financial market might be more but it includes 100% risk. While investment in real estate segment does not carry more risk in compare to other segment or markets.

2.4.5. Trend in Regulatory policy initiatives for the industry

The segment faced variation with the time being observed development and rapid growth in the segment because of the change in the structure and policy initiatives from the government. Further segment gaining more and more popularity along with the development in the sector. The industry witnessed introduction of regulatory changes and policy initiatives in order to transform it into an organized, transparent, accountable and investor-friendly sector. Some of the regulatory changes and additions between year 2014-16 are as follows

Real Estate (Regulation & Development) Act 2016: RERA was passed by the Parliament in March 2016. States have to implement the bill within one year from the time it was passed.
This bill is primarily aimed at bringing in transparency to the sector and is being touted as a pro-consumer law. One of the biggest industry wide change is registration of properties under development by developers which would mean only organized and professionally managed companies would be able to carry on with the business, thus the sector would see lot of consolidation going forward.

Goods and Services Tax: The GST is the single-biggest tax reform to be ever introduced in India. GST aims at eliminating the difference in indirect taxes applicable across various states, hence bringing in ease of doing business and simplified taxation procedure for businesses. The tax regime would be introduced in the year 2017, with most states having accepted the law after debate and discussion. The sector stands to benefit from the fact that GST would provide more clarity on tax-credits for RE transactions and allowance of input credit would reduce the price of properties. GST rate for the real-estate sector is expected to be announced in next year.

Infrastructure status to affordable housing: The affordable housing segment has been accorded infrastructure status which would ensure more funding from the banking system as well as Pension funds being eligible to invest long term into affordable housing segment which in turn would reduce the cost of construction. For classification of affordable housing, instead of “built-up” area of 30/60 sqm, the new classification is “carpet-area” of 30/60 sqm. The 30 sqm limit applies only in case of municipal limits of 4 metropolitan cities while for the rest of the country including the peripheral areas of metros, limit of 60 sqm will apply. The government has also extended the time of completion of such projects from 3 years to 5 years.

Real Estate Investment Trusts (REITs): One of the most transformational changes which have been brought in to make the entire sector more transparent and investor centric. Apart from the fact that REIT would let small investors buy into the real estate asset class at a much smaller ticket size, REIT gives large portfolio investors the chance to exit from investments, which makes Indian real estate market favourable for more investments from global investor community. Additionally, Budget 2016-17 exempted dividend distribution tax (DDT) on special purpose vehicles (SPVs). Rules for REITs were relaxed, and the
investment cap in under-construction projects was raised from 10% to 20%. Currently, around 229 m.s.f. of office space can be seen as REIT compliant. (Source: JLL Research)

Benami Transactions Act 2016: This bill will curb black money flow into real estate and will render holding of property under fictitious names a punishable offence. This bill aims at bringing transparency and accountability in the sector as a whole especially with regard to funding.

Policy initiatives: Pradhan Mantri Awas Yojana and National Urban Housing Policy 2015 set up to meet the gap of housing through increased private sector participation and policy initiatives to support housing for all across by 2022. Total housing deficiency predicted to be focused through the new mission by the year 2022 is 20 million.

Smart Cities mission for revival and creation of 100 cities into smart cities, Atal mission for renovation and urban makeover, development of heritage city and expansion yojana (HRIDAY) are some other policy initiatives, which if implemented in line with the projected plan of implementation would be huge growth drivers for housing segment of real estate.

Other notable announcements in the Budget for the sector:

Removal of the tax on notional rental income for a year, from the date of issue of completion certificate, would allow real estate developers to liquidate inventory and avoid additional tax burden.

Relaxation of joint developers liability to pay capital gains tax will be in a year after the project is constructed, time limit for capital gains to be considered as a long-term gain has been reduced to 2 years from the earlier 3 years etc. are some other regulatory changes.