



An empirical study of the real estate sector in pre-recession period in Karnataka

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Abstract

The real estate sector is one of the important and fast growing sectors. The sector has been evolving over the years and there is a paradigm shift in the investment front. The Government initiated the LPG reforms in the year 1991. The economy has shown progression there after till the recession of 2008. The present study takes an analytical study of the Pre-recession period in the real estate front. The impact of the Pre-recession scenario on the demand, supply and pricing is studied herewith.

Keywords: housing loans, urban and semi-urban, government schemes

Introduction

The real estate sector is one of the most globally recognized sectors. Real estate sector comprises four sub sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodations. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy. It is also expected that this sector will incur more Non-Resident Indian (NRI) investments in both the short-term and the long-term. Bengaluru is expected to be the most favoured property investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun ^[1].

Working of the real estate industry

Real estate also refers to producing, buying and selling real estate. Real estate affects the U.S. economy by being a critical driver of economic growth.

Construction of new buildings is a component of Gross Domestic Product. It includes residential, commercial, and industrial buildings. In 2018, real estate construction contributed \$1.15 trillion to the nation's economic output. That's 6.2 percent of U.S. Gross Domestic Product. It's more than the \$1.13 trillion in 2017, but still less than the 2006 peak of \$1.19 trillion. At that time, real estate construction was a hefty 8.9 percent component of GDP.

New home building is a critical category. It includes construction of single-family homes, townhouses and condominiums. The National Association of Home Builders provides monthly data on home sales and average prices. The data on new home sales is a leading economic indicator. It signals how the housing market will do in nine months. That's how long it takes to construct new homes. The NAHB also reports new home starts, those are the number of home construction projects on which ground is broken.

Real estate agents assist homeowners, businesses and investors buy and sell all four types of properties. The industry is typically divided up into specialists that focus on one of the types.

Sellers' agents help find buyers through either the Multiple Listing Service or their professional contacts. They price your property, using comparative listings of recently sold properties known as "comps." They can help you spruce up your property so it will look its best to customers. They assist in negotiations with the buyer, helping you get the highest price possible. Here are more sellers' agent services. Buyers' agents provide similar services for the home purchaser. They know the local market. That means they can find a property that meets your most important criteria. They also compare prices, called "doing comps." It allows them to guide you to areas that are affordable. Buyers' agents negotiate for you, pointing out reasons why the seller should accept a lower price. They help with the legalities of the process, including title search, inspection and financing. That's because new home builders can be overenthusiastic about future sales and overbuild. They can also cut prices to force sales. Individual homeowners must follow the market's supply and demand. They don't have the clout to manipulate the market. NAR provides the current housing market statistics.

Review of literature

1. Perna Katiyar (2018) ^[2] contend the macro-economic environment was also conducive. India's GDP grew 8.4% in 2010-11. Banks offered easy home loans to buyers, and funds to developers, over leveraging the sector. Projects were launched without the 15-odd necessary clearances and authorities looked away. The real Estate sector is recorded with historical annual returns of 20% (1991-2014).

2. Vis-a-vis real estate, gold, equity and bank FDs gave returns of 10.9%, 15.5% and 8.8% respectively, according to a Resurgent India report. The house of cards fell in 2013-14 as the GDP contracted to 4.7% (the baseline revision

¹ www.IBEF.Com

² This could be the turnaround year for real estate. Here's why; economictimes.indiatimes.com

later pushed it to 6.9%). As the bubble burst, buyers stopped paying and banks stopped funding. The liquidity crunch saw developers delaying projects while a few went bankrupt and litigation and bad deliveries followed.

3. Sunita Sikri and Ms. Dipti Wadhwa (2012) ^[3] contend that the Indian Retail Industry is the fifth largest in the world. Comprising of organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially the retail industry in India was mostly unorganized, however with the change of taste and preferences of consumers, the Industry is getting more popular these days and getting organized as well. The Indian Retail Industry grew from US\$330 billion in 2007 to US\$640 billion by 2015.

4. Mohan Guruswamy, Kamal Sharma, Jeevan Prakash Mohanty and Thomas J. Korah (2008) ^[4] feel that the retail sector has witnessed unprecedented growth in recent times and is currently one of the fastest growing sectors in India. Given the large size of this sector, its expansion is both a cause as well as a consequence of rapid economic growth. However, it is largely unregulated – a fact which implies that efforts to block competition or cartelise can be effective and threaten the growth and welfare generation potential of this sector. It is for this reason that competition and regulation scenario in the retail sector needs to be reviewed.

5. M.R. Jaishankar (2008) ^[5] feels that the developer community should tighten their belts and brace themselves for hard times from authorities & activist groups. While RERA will have long-term positive effects on the sector, with no entry barrier earlier resulting in all kinds of questionable characters entering the business. It is also bound to add cost due to delay in obtaining additional approvals from RERA authorities before a project is launched. The real estate sector already suffers from the problem of dealing with too many civic authorities, who have been conveniently let off by the Government from the regulations of RERA. Once the sector recovers from the impact & negative sentiments of demonetisation, the real estate costs or prices should go up at least by 10% due to the provisions of RERA and the recently revised National Building Code for new projects.

6. Stephen Gordon (2017) ^[6] contends that the global financial crisis that began in 2007 dragged much of the world economy into recession, and Canada was not spared. Although the effects on Canada were milder than on the United States and in Europe, the Canadian recession of 2008–09 was still severe enough to generate sharp declines in output and employment and to require significant responses by Canadian policy-makers.

The US economy had gone into recession in 2001, and the US Federal Reserve — the country's central banking system — reduced interest rates as a counter-cyclical measure (*see Monetary Policy*). Lower interest rates made it easier for households to carry larger amounts of mortgage debt, and so the demand for US housing increased. The resulting increase in prices stimulated residential construction activity, and the resulting increase in employment and

output in the housing sector was an important factor in the recovery in the US economy.

Joint Center for Housing Studies of Harvard University (2011) ^[7] reports that despite record-high vacancy rates and falling rents in some areas, the Great Recession did little to halt the long-term erosion of rental housing affordability. Indeed, conditions took a turn for the worse in the past decade when renters were squeezed by lower real incomes and rising rents and energy costs. Between 2001 and 2009, the share of renters paying more than 30 percent of their incomes for gross rent (contract rent plus tenantpaid utilities) jumped from 41.2 percent to 48.7 percent. At the same time, the share of renters paying more than half their incomes for housing climbed from 20.7 percent to 26.1 percent, with fully 2 percentage points of this increase occurring between 2007 and 2009 alone. The growing share of cost-burdened renters is apparent in all of the 100 largest metropolitan areas in the country.

Nouriel Roubini (2009) ^[8] opines that despite slowing from highs of 8% to 9% growth, India's economy will grow close to 6% in 2009. Amid domestic and global liquidity crunch, large domestic savings and corporate retained earnings are financing investment. Sluggish labor market and wealth effects have hit urban consumption. But low export dependence, a large consumption base and the high share of employment (two-thirds) and income (one-half) coming from rural areas has helped sustain consumption. Pre-election spending, especially in rural areas, and high government expenditure, are also pluses. Timely monetary and credit measures have played a key role in improving private demand, liquidity and short-term rates and reducing the risk of loan losses.

Research Gap

The Indian economy witnessed varied phases after the Economic Reforms introduced after 1991. The advent of the Private Players in the Economy brought myriad economic benefits in increased income levels, economic opportunities, growth of the various sectors and the like. The present study takes an account of the aftermath of LPG reforms of 1991, the growth phase till 2008 recession period and the repercussions of the same.

Hypothesis

H₀: There is no difference between Pre- and Post-Recession scenario in real estate sector in Karnataka

Operational definition of concepts

Real Estate

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 (also) an item of real property, (more generally) buildings or housing in general.

Residential Real Estate Properties

Residential real estate is an area developed for people to live on. As defined by local zoning ordinances, residential real estate cannot be used for commercial or industrial purposes. Such laws vary from location to location and can restrict

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⁴ Competition and Regulation in Indian Retail Sector

⁵ <https://www.brigadegroup.com>

⁶ <https://www.thecanadianencyclopedia.ca/en/article/recession-of-200809-in-canada>; Recession of 2008–09 in Canada

⁷ Rental Market Stresses: Impacts of the Great Recession on Affordability and Multifamily Lending

⁸ Forbes 2009 Are There Bright Spots Amid the Global Recession?

how many buildings are allowed on a single block and what kinds of municipal services reach those buildings.

GST

The goods and services tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses

Sampling

All the apartment buyers in Bangalore, Mangalore, Mysore, Hubli and Dharwad form the Universe/population. A sample respondents of 693 have been contacted for the data collection.

2. Methodology

The present study is analytical type, involving collection of Data by conducting field survey using techniques such as administering comprehensive questionnaires, interviews,

personal interaction with respondents to elicit the views of all stakeholders in retailing. The secondary data is collected from Books, journals, Magazines periodicals, and articles, Bulletins, Brochures and reports of economic think- tank-NCAER, CMIE, CII and the like; Published Research Works and paper, Newspapers and the like. The collected data are analyzed.

3. Data Collection and Data Processing

For the purpose of primary data collection, the study relied on well-structured questionnaire, schedule, personal interviews, and e-mail survey. The secondary data on the topic were collected from globally renowned text books on Real Estate, empirical research papers, sample Developers, Real Estate manual, annual reports, internet information, published theses, dissertations, internationally acclaimed management journals, Magazines, and New bulletins, Newspapers, micro-films on the topic. The collected data is processed using SPSS package.

Analysis and interpretation

Table 1: Supply of the Real Estate Products in the Pre-Recession Scenario N=693

Statements		SA	A	N	DA	SDA
In the pre-recession era, between 2000 and 2008, the supply of real estate products was gradually grown	N	253	154	130	99	57
	%	36.51	22.22	18.76	14.29	8.23
The demand pattern in real estate sector in the pre-recession scenario was stable	N	296	146	100	84	67
	%	42.71	21.07	14.43	12.12	9.67
The supply of LIG and MIG apartments were gradually growing in the pre-recession period	N	294	157	136	61	45
	%	42.42	22.66	19.62	8.80	6.49
Equally the supply of HIG apartments had grown in the sample geographical area of Karnataka. It was more pronounced in Bangalore	N	251	184	147	111	50
	%	36.22	26.55	21.21	16.02	7.22

The Pre-recession era, had bountiful opportunities for the various economic sector. Real estate across various product categories enjoyed the supply upsurge. There was very vibrant demand and supply making the market a very lucrative for that activity involving in the real estate business. The demand in commensurate with the population did exhibit stability in the market.

The up gradation of LIG and MIG to seek apartments for dwelling was witnessed fore recession period. The segment was more pronounced with more people coming into the real estate market front. There was striking improvements in the supply of HIG apartment even in tier ii and tier iii cities. This led to more corporate realtors to enter there to reap the benefits of emerging real estate sites.

Table 2: Demand pattern of Real Estate products in the Pre-Recession Scenario N=693

Statements		SA	A	N	DA	SDA
The demand pattern generally in the real estate sector of Karnataka witnessed steady growth in the Pre-Recession Scenario	N	274	195	91	87	46
	%	39.54	28.14	13.13	12.55	6.64
The demand for LIG and MIG apartments in the pre-recession period had grown to a sizeable extent on account of rising middle-class income	N	252	186	110	76	69
	%	36.36	26.84	15.87	10.97	9.96
The demand conditions for HIG apartments in sample area of Karnataka and especially in Bangalore had grown moderately	N	199	154	134	126	80
	%	28.72	22.22	19.34	18.18	11.54

Analysis

A question regarding the demand pattern of Real Estate products in the Pre-Recession Scenario was posed to the respondents to get their responses with three variables. Two-third of the respondents expressed agreement on the steady growth of the Real Estate Sector in the Pre-Recession Scenario. 15.87% of the respondents expressed neutrality in

the opinion about the growth of Real Estate to a sizeable extent on account of rising middle-class income. On HIG apartment demand to be growing at moderate levels, 28.72% of the respondents strongly agreed upon the statement. 11.54% of the respondents expressed strong disagreement with the statement.

Table 3: Pricing Pattern N=693

Statements		SA	A	N	DA	SDA
Between 2000 and 2008, the era of second-generation economic reforms, the general price level has shown upward trend. So also, in the real estate sector	N	400	138	72	54	29
	%	57.72	19.91	10.39	7.79	4.18
The large pool of investment and hidden cost augmented the price of MIG and LIG apartments	N	368	98	84	79	64
	%	53.10	14.14	12.12	11.40	9.24
The Government subsidy and patronage helped the low-income groups to have their own apartments at affordable price	N	269	153	131	81	59
	%	38.82	22.08	18.90	11.69	8.51
Till the recession the prices of LIG, MIG and HIG apartments were showing northward trend	N	315	160	111	66	41
	%	45.45	23.09	16.02	9.52	5.92

Analysis

A question regarding the Pricing Pattern of the real estate sector before recession was posed to the respondents. Four variables have been identified in this respect. For the question regarding between 2000 and 2008, the era of second generation economic reforms, the general price level has shown upward trend as also the real estate sector, 57.72% of the respondents strongly agreed. One-tenth of the respondents have expressed neutral opinion. Investment and hidden costs augmenting the price of MIG and LIG apartments is contended by the 67.24% of the respondents. The impetus provided by the Government Subsidy and patronage helping the low income groups to make the

apartment buying affordable with the LIG segment is strongly denied by 8.51% of the respondents. Till the recession the prices of LIG, MIG and HIG apartments showing the northward trend is denied by 15.44% of the respondents.

Hypothesis-1

H₀: There is no difference between Pre- Recession scenario in real estate sector in Karnataka

Independent Variable (X): Pre-Recession

Dependent Variable (Y): Investment, FDI, Legal Requirements and Black Money

Table 1: Correlation Analysis

IV		DV			
		Investment	FDI	Legal Requirements	Black Money
Pre-Recession	Pearson correlation	.912**	.741**	.811**	.843**
	Sig. (2-tailed)	0.001	0.000	0.000	0.000
	N	693	693	693	693

** . Correlation is significant at the 0.01 level (2-tailed).

The correlation coefficients obtained between Pre-Recession and Investment (r=.912; p=.001), FDI (r=.741; p=.000), Legal Requirements (r=.811; p=.000), Black Money (r=.843; p=.000 were all found to be positive and highly significant. In other words, scores in all the factors of Pre-Recession have increased linearly and significantly and vice versa.

reflected on the rest of the other economic fronts. The real estate has always been an investment destination for the investors.

Table 2: Regression Analysis

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F Change	Sig. F Change
1	.913a	0.834	0.834	0.23342	8395.479	0.000
a. Predictors: (Constant), Pre-Recession						

The first variable to enter into the equation was Pre-Recession with correlation coefficient of 0.913, squared R value of 0.834 and a variance of 83.4%. The variables best predicted the Repercussions.

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Conclusion

The real estate sector has been a very lucrative for investment in India. The sector has shown sustenance even during the global sub-prime crisis. The economy with the advent of the Private players and foreign players has led the economy to revive and real estate sector also benefited from the same. The pre-recession period of 2008 had its own implications for the real estate sector. The demand for the LIG, HIG and MIG segment was on a constant rise. The prices were interplay of supply and demand. The same got