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Real Estate (Residential) Industry: Evolution over the Decades

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Abstract: *Real Estate Industry has been always discussed in different forums, articles, conferences, and media about how the trend is moving, what is going to be the growth, etc. This article does not discuss any of them. The primary focus of this case study is to provide a generic overview of the Real Estate Industry (Residential), including its Evolution story over the years, change in approach towards the industry with respect to different stakeholders.This Case Study is written for generic understanding of the Real Estate Sector and should not be used for any prediction analysis. We can broadly categorize the sector into Housing, Retail, Commercial and Hospitality. This case study mainly focuses on the Residential category.*

I. Introduction

The real estate sector has always been in the news for new regulations or super luxury deals.It contributes more than 6% of the GDP and has been the second largest employment generating sector in India.As per experts, the sector is expected to grow 30 per cent over the next decade.The growth of the Real Estate sector has been always a prerequisite for a growth of the economy. As per the “India in Business, Ministry of External Affairs, Govt. of India, Investment and Technology Promotion Division”, “The Indian real estate market is expected to touch US$ 180 billion by 2020. The housing sector alone contributes 5-6 per cent to the country's Gross Domestic Product (GDP)”.

Since Beginning - Till 80’s

Historically, real estate deals involved purchase of land by the customer for end use purpose. These transactionswere mainly facilitated through references of customer’s family members & friends or in certain cases by real estate agents. Average Family size during that period was 7-8 and that was popularly known as the “Joint Family” concept. According to the Census of India, 2011, the growth of urbanization in India was only 18% in 1960 as compared to 23.3% in 1980. This clearly states that during the said period, the rate of urbanization was increasing which led to the demand for life spaces.

1980-2000

The demand supply mechanics started playing an important role in the sector. Scarcity of usable Land was felt by the stakeholders of the sector. That also ignited a sense of importance of the sector. People started shifting focus to this industry after analysing the potential of the sector. Along with the customers for end use, now investors also joined the wagon. Growing population and more importantly the shift towards Urbanization played a major role in increasing the demand. The Liberalization during 1991 helped the sector in many ways. The rate of urbanization increased from 25.7% in 1991 to 31.2 % in 2011. This in turn increased the demand in the sector.

2000 - 2010

As the concept of nuclear family was on the rise,the demand for residential spaces increased proportionately. Channel Partners or Agents were considered as predominant stakeholders in the sector. Newspapers and Radio were flooded with property advertisements. Many prominent players were seen sponsoring sports/ events to gain visibility. The Middle class was now referred to as the Upper Middle class, owing to rise in disposable income.Prices in all Residential segments shot up. Developers complimented the growth by offering products for all segments, from affordable to marvellous super luxury buildings and apartments. Till 2004, the project finance in the sector was predominantly done through Sales, Bank& Private Lending.

100% FDI into Real Estate was also introduced in 2005 with certain conditions attached to it like minimum area restriction of floor area of 20,000 sq meters in construction development projects, etc.Prior to 2005, it was primarily the NRIs and PIOs who could invest in the sector with certain exceptions. This also resulted in increased of available funds for the sector. Post 2005, Private Equity lending and NBFC lending joined the list of Funding sources for the sector. RBI policies of Lower interest rates and Tax incentives on Interest were the cherry on the cake. It was a Bull Run for the sector till 2009. Then suddenly the growth of the sector took a halt owing to the Global Slowdown.Due to the economic downturn, people started focusing on liquidity more than Investments. As like other sectors, the demand for Residential / Commercial spaces started falling drastically. This was highlighted by all the economists who stated that, “when my demand decreased, my prices also starts falling”. The same happened here. Over supply of inventory started prevailing. This resulted in decreaseof FDI inflows in the sector.

Post 2010

The Sector was back with a bang. With the continuous development of social and physical development within the country and strong economic reforms, the sector was also benefited of the same and demand for residential and commercial spaces started building up. The customer segment was a mix of end use and investors. People were attracted towards the sector as it witnessed strong capital appreciation in comparison to other mode of investments.The new era customer base did not only rely on the estimates of the Channel Partners but also did their own research based on the Analytics available in the public domain. Different Real Estate Analytics website provided wide range of analysis based on historical and future predicted data. Many developers also started recognizing online platform for making their product available to the larger audiences.
There are also many Applications, commonly known as “Apps” in smart phones where buyers can initiate the deal with the developers or channel partners. Still the proportion of online transaction is lower compared to the total sector sales, but experts suggest that online platform will grow exponentially in the coming years. Even developers are using these Analytics to position and sell their products in the market. The sector has been very active in raising Private Equity Funds of about US $1.2 Billion over the last year. The decade witnessed growth of both Residential and commercial spaces. Delhi’s Central Business District (CBD) of Connaught Place is amongst the most expensive commercial spaces in the world with occupancy costs at US$ 160 per sqft per annum.

According to data released by Department of Industrial Policy and Promotion (DIPP), the construction development sector in India has received Foreign Direct Investment (FDI) equity inflows to the tune of US$ 24.1 billion in the period April 2000-June 2015. The relaxation of FDI norms like Area restrictions, minimum capitalisation of $5 million to be brought in within the period of six months of the commencement of business, etc. has been introduced in order to boost the Foreign Investments scenario in the sector.PradhanMantriAwasYojana, commonly referred as Housing for All, has been launched in June 2015which aims to build 2 crore houses in India by 2022, primarily for people falling under EWS and LIG categories. This decade will also witness development of 100 smart cities in the country, which opens up growth opportunity for the sector. Real Estate Investment Trust (REITs) is also expected to ease up the fund position in the sector and will also create an Investment opportunity for investors. About 35% of Indian Population is under the bracket of 15-35 age, which is a very positive sign for any industry and Real Estate is a part of it. The demand for residential spaces is going to be on the rise due to the young population and subsequent growth in disposable income.

Way Ahead

As per the “Make in India Website”, “India has an estimated urban housing shortage of 18.8 million dwelling units. The housing shortage in rural India is estimated at 47.4 Million units, in 2012”.The demand & supply gap is still huge which continues to create the opportunity for all stake holders to be a part of the sector. We can witness further investments from Foreign Investors and Private Equity players in the future.With the demand of this sector coupled with the Growth road map of the Nation, the Industry will grow leaps and bounds in the coming decades.

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