



UNDERSTANDING THE INDIAN REAL ESTATE INDUSTRY WITH FOCUS ON THE GROWTH OF COMMERCIAL REAL ESTATE WITH REFERENCE TO NCR

Jyoti Bhoj

Research Scholar, EAFM, and School of commerce, University of Rajasthan, Jaipur, Rajasthan,

ABSTRACT

This use of "real" also reflects the antediluvian and mediaeval preference for land, and the ownership (and owners) thereof. Some people have claimed that the word real in this sense is derived from the Latin word for 'king'. In the feudal system the king was the owner of all land, and everyone who occupied land paid him rent directly or indirectly (through lords who in turn paid the king), in cash, goods or services (including military service). Humans abandoned the hunter-gatherer lifestyle gradually over the period from 30,000 B.C. to 15,000 B.C. It did marked a transition toward an agrarian society - a transition that also heralded the advent of home ownership. The term real estate includes land as well as building. The word 'land' comprises the air above and the ground below and any buildings or structures on it. It includes residential houses, commercial offices, spaces such as theatres, hotels and restaurants, retail outlets, industrial buildings, factories and also government buildings. Real estate sector makes significant contribution to Indian GDP with real estate contributing almost 6%. In average annual house price index has seen a growth rate of 2.8%, .5%, 4.3%, 8.4%, 2.3% and 3% from 2010 to 2015 respectively. India average annual housing index growth rate were 8.9%, 11.1%, 8.5%, 3.4%, 6.7% and 3.9% from 2010 to 2015 respectively. India annual house price index except for 2013 has remained higher than the annual average house index growth rate. The overall available stock of office real estate was reduced marginally to the tune of 2.2 million sq ft from 2.7 million sq ft in 2013. Delhi had approximately 1.18 million sq ft of lease transactions during 2014, which is almost double of the 2013 leasing of 0.6 million sq ft.

KEYWORDS: *Retail real estate, Hospitality real estate, Commercial real estate*

INTRODUCTION

The oldest use of the term "Real Estate" that has been well-kept in historical records was in 1666. This use of "real" also reflects the antediluvian and mediaeval preference for land, and the ownership (and owners) thereof. Some people have claimed that the word real in this sense is derived from the Latin word for 'king'. In the feudal system the king was the owner of all land, and everyone who occupied land paid him rent directly or indirectly (through lords who in turn paid the king), in cash, goods or services (including military service). Humans abandoned the hunter-gatherer lifestyle gradually over the period

from 30,000 B.C. to 15,000 B.C. It did marked a transition toward an agrarian society - a transition that also heralded the advent of home ownership. Now as people become farmers some people also become raiders who used to rob and plunder. A well-fed army repel any desperate raiders. In return for this security, the people all paid homage to the lord or king who claimed ownership of the land - which, in crux was the first system of rent. As these farming villages grew into cities, such families maintained ownership by right of lineage thus becoming the kings, pharaohs, daimyos and the heads of other feudal dynasties. This system of labor-for-protection

developed into two separate systems in most of the countries i.e., taxes and tenancy. Many other demands were made by ruling leader such as military service and they were met because these rulers owned the land not only by birthright, but by military might as well. Non-agrarian shops and houses that still paid rent and taxes to various lords and kings, however they were sold and rented among the common folk rather than by the royal class. Richer merchants became landlords and gained wealth and status. These merchants didn't own the land, but they owned the houses on it. Title lands were broken into smaller packages and sold on a free market of sorts, but most of the people who bought the deeds were either merchants or former aristocrats who managed to escape being shortened by revolutionary fervor. The industrial revolution was one of the great equalizers in human history, perhaps only matched by the development of firearms. People with determination were able to jump classes and bring some of their low class responsiveness with them, leading to track housing for laborers and a range of products aimed at the lower classes. The people who made up the arrangement of peasants now became middle class, blue collar, white collar, and a handful of other things. They started to own houses and cars. After the industrial revolution, however banks opened themselves to "higher-risk" mortgage loans to common people. This allowed people to own their own homes and, if they so desired, to become landlords themselves. This is the history of real estate in brief. The term real estate includes land as well as building. The word 'land' comprises the air above and the ground below and any buildings or structures on it. It includes residential houses, commercial offices, spaces such as theatres, hotels and restaurants, retail outlets, industrial buildings, factories and also government buildings. Thus the term real estate indicates immovable property which can be either land or building or both. Real estate differs from personal properties such as furniture, money, clothing as any type of personal property is movable with the owner of it.

OBJECTIVE

1. Understanding the history of real estate
2. Understanding the advantages of real estate
3. Understanding the Indian real estate sector
4. Understanding the growth of commercial estate with reference to NCR

DEFINITION

According to Section 2(6) of the Registration Act, 1908, "Immovable Property includes land, building, hereditary allowances, rights to ways, lights, ferries, fisheries or any other benefit to arise out of land, and things attached to the earth or permanently fastened to anything which is attached to the earth but not standing timber, growing crops nor grass".

The real estate transaction includes:

- a. Purchase,
- b. Sale and
- c. Development of land (both residential and non-residential buildings).

There are many advantages of investing in real estate such as

1. Real estate provides better returns
In real estate risk of loss is minimized by the length of time an investor hold on to his/her property. When the market improves, so does the value of home, and as a result, it builds equity. The risk never changes in the stock market and there are numerous factors beyond an investor's control that can negatively impact investment. Real estate gives one more control of his/her investment because property is a tangible asset that investor can leverage to capitalize on numerous revenue streams, while enjoying capital appreciation
2. Real estate has a high tangible value
There will always be value in land, and value in home. Other investments can leave investor with little to no tangible asset value such as a stock which can dip to zero, or a new car which decreases in value over time.
3. Earn Passive Income For Life
The number one reason to invest in real estate is to generate a passive income throughout life.
4. Diversifying portfolio
Many investors strive to reduce the overall risk of their portfolio through allocating funds to various types of assets and securities. Adding investment real estate to investment portfolio will help offset the volatility of other high-risk assets, thereby reducing the overall risk level of portfolio, and providing investor with steadier returns.
5. Tax benefits.
Investor can get tax deductions on mortgage interest, cash flow from investment properties, operating expenses and costs, property taxes, insurance and depreciation (even if the property gains value) and other benefits.

6. Wealth Creation

Strategically selected real estate investments can be powerful vehicles for wealth creation. The value of investment property increases, while the corresponding mortgage financing is reduced nominally through regular mortgage payments. The result is increased equity and increased wealth.

7. Inflation Hedge

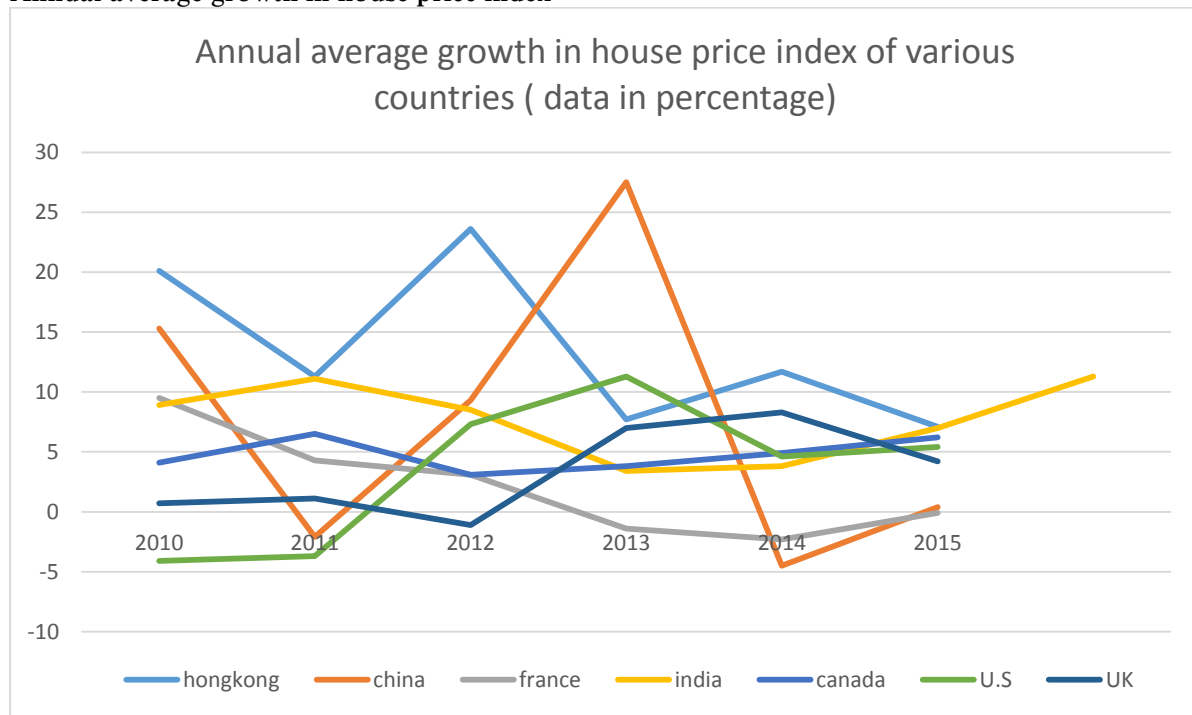
A long-term real estate investing strategy is an effective hedge against inflation as the value of this asset class has historically increased at a rate similar to the rate of inflation.

INDIAN REAL ESTATE SECTOR

The real estate market in India is currently in the middle of fairly challenging times. India's real estate sector is projected to reach USD 180 billion by 2020 from USD 126 billion in 2015, according to a joint report by CREDAI and JLL. Real estate sector

in India is estimated to reach a market size of US\$ US\$ 1 trillion by 2030 from US\$ 120 billion in 2017 and contribute 13 per cent of the country's GDP by 2025. Retail, hospitality and commercial real estate are also growing considerably, providing the much-needed infrastructure for India's growing needs. Sectors such as IT, retail, consulting and e-commerce have registered high demand for office space in recent times. Commercial office stock in India is estimated to cross 600 million square feet by 2018 end while office space leasing in the top eight cities is expected to cross 100 million square feet during 2018-20. The Indian real estate sector has witnessed high growth in recent times with the rise in demand for office as well as residential housing. Institutional investments in India's real estate are expected to reach US\$ 5.5 billion for 2018, the highest in a decade. Real estate sector makes significant contribution to Indian GDP with real estate contributing almost 6%.

Annual average growth in house price index



The above graph shows the annual growth in the house price index of some of the importance countries. The data is taken from “the knight frank global house price index”. As per the data we can state that India has performed fairly well in terms of annual growth in house price index for the year 2010 to 2015. Where countries like USA not only registers low annual average growth than India in 2010,2011, 2012 and 2014 in some years it was also negative. If we look at Hongkong it has performed fairly well

period 2010 to 2015. In all the years it has registered a positive annual growth rate. If we look at china in 2011 it registered -2.1%, in 2014 -4.5% and in 2015 only 0.4% of annual average growth. Canada's growth rate ranges from 3.1 to 6.5%. UK for the period 2010 to 2015 ranged from -1.1% to 8.3%.

If we look at India average annual growth rate it remained positive for the period ranging from 2011 to 2015 the lowest it was in 2013 3.4% and the highest it was in 2011 11.1%.

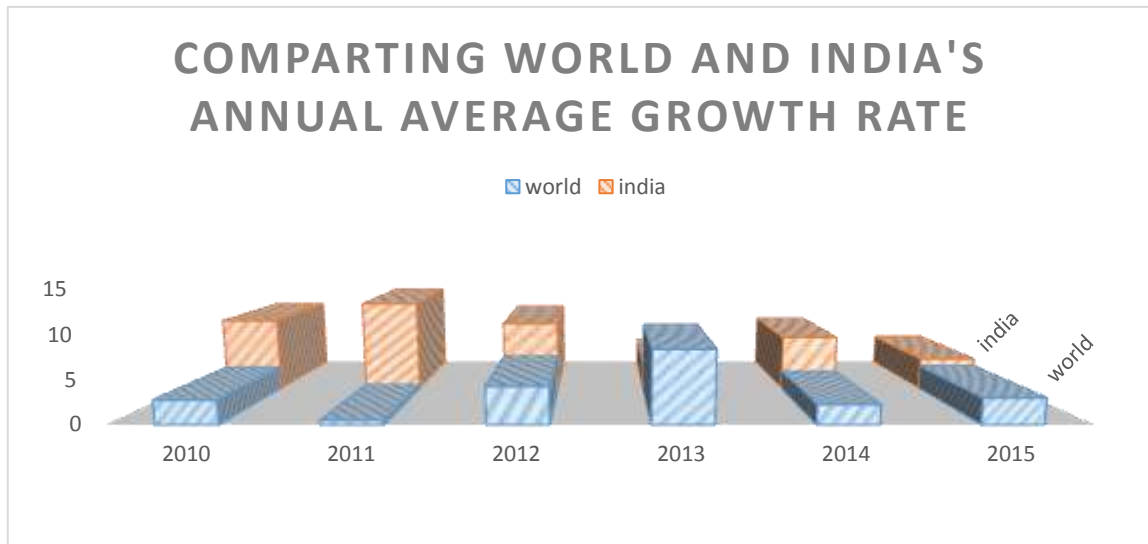
Average annual growth rate of some important countries

COUNTRIES	AVERAGE ANNUAL GROWTH RATE(IN PERCENTAGE)
HONGKONG	12.4
CHINA	6.12
FRANCE	.72
INDIA	6.72
CANADA	4.9
UK	3.9
USA	4.98

The table above shows the average annual growth rate for the five year period (2011 to 215). As we can see India among the seven countries is only below Hong

Kong. Its average annual growth rate is for the period 2011 to 2015 is 6.72%.

Annual average growth rate India vs world

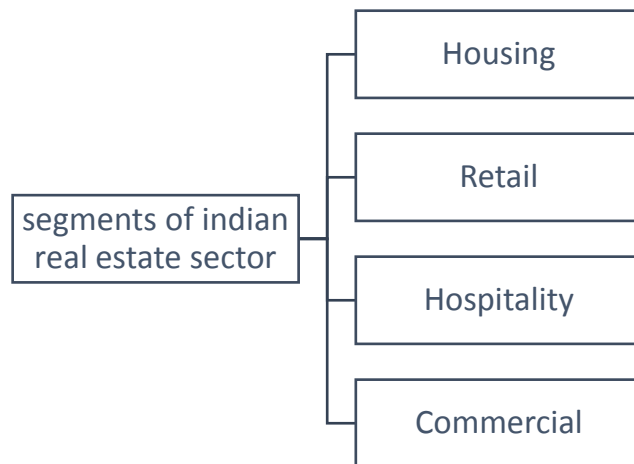


In average annual house price index has seen a growth rate of 2.8%, .5%, 4.3%, 8.4%, 2.3% and 3% from 2010 to 2015 respectively. India average annual housing index growth rate were 8.9%, 11.1%, 8.5%, 3.4%, 6.7% and 3.9% from 2010 to 2015 respectively. India annual house price index except for 2013 has

remained higher than the annual average house index growth rate.

Indian real estate sector is the second largest employer after agriculture. It comprises of housing, retail, hospitality and commercial. The following figure show the segments of Indian real estate sector:

Segments of real estate sector



1. Residential real estate
A residential area is a land in which housing outweighs, as opposed to industrial and commercial areas. Housing may vary expressively between, and through, residential areas
2. Commercial real estate
Commercial real estate is any non-residential property used for profit-making purposes. Commercial spaces are perfect for businesses that need room for cubicles in addition to a reception area, offices, and conference rooms etc. These businesses aside from the employees, don't see much amount of foot traffic. They are typically centrally located, making it easier for employees who commute.
3. Hospitality real estate
It consists of a wide range of products including hotels, travel centers, water parks, amusement facilities, golf courses, cruise ships and restaurants etc.
4. Retail real estate
Retail property is a classification for property that is used for a store, shopping center or service business etc. Real estate is another word used interchangeably with retail property. Retail spaces are desirable when there is large amount of foot traffic. Often times they are located close to anchor stores such as grocery stores which can also help to increase your foot traffic.

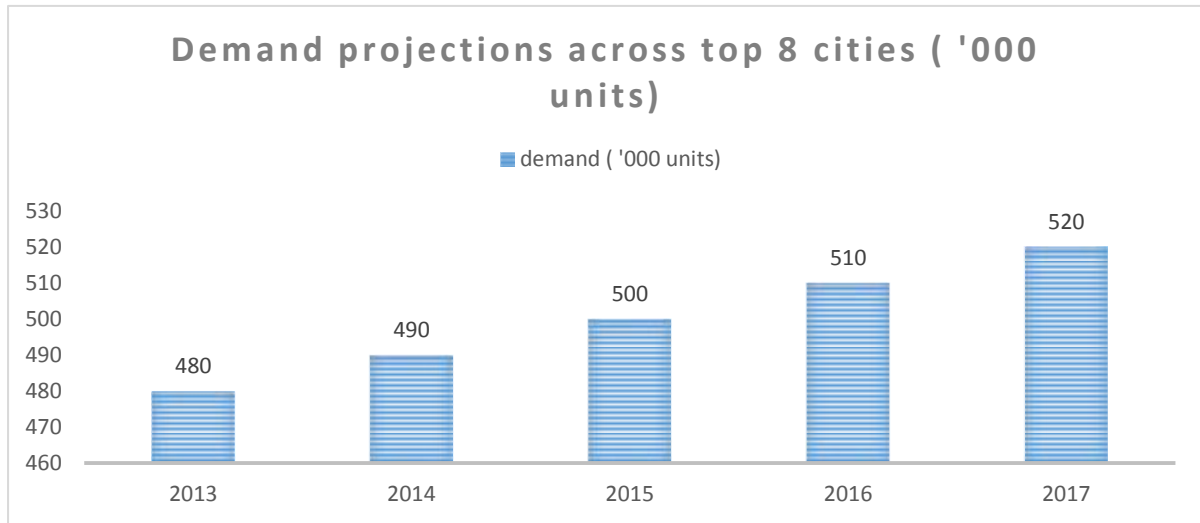
RESIDEX for various years of selective cities

Place	2007	2010	2011	2012	2013	2014	2015
Hyderabad	100	81	83	90	88	95	97
Mumbai	100	134	175	217	222	229	238
Bangalore	100	64	88	106	109	107	115
Delhi	100	106	126	195	202	199	190
Faridabad	100	154	165	205	207	205	224
Pune	100	124	148	205	221	232	251

In Hyderabad an increase of 19.75% has been over the course of five years (2010 to 2015). In Mumbai an increase of 77.61% is recorded for the same period. In Bangalore it is 79.68%. In Delhi its 79.24% and in Faridabad it is 45.45% whereas in pune 102.41%. So the maximum increase in RESIDEX among these cities is found in Pune. The year 2015 witnessed decrease in home loan interest rates in addition to various incentives being offered by developers. However, the transaction volumes in

residential real estate continued to remain on the lower side. Though some cities witnessed increase in enquires towards the end of the year; in general, the residential customers was still cautious. Primary reasons for this restraint are increasing delay in the present under construction projects, quality issues and higher price points

Chart showing demand projections in the top eight cities



Source: Cushman & Wakefield, TechSci Research

The above chart show demand projects across top eight cities which includes Chennai, Hyderabad, Mumbai, Kolkata, NCR, Bengaluru, Pune and Ahmedabad. The projection positive which indicates that though past years have been hard for real estate and it was also affected by the aftermath of demonetisation but in the recent year’s government has introduced various reforms whose benefit will materialise in future. The notification by the Securities and Exchange Board of India (SEBI) on the Real Estate Investment Trusts (REITs) regulations cemented the way for introduction of an internationally acclaimed investment structure in India. The government also amended Foreign Direct Investment (FDI) rules in the construction sector by reducing minimum built-up area as well as the capital requirement, while also easing the exit norms. The market expects that these amendments will go a long way in attracting more investments in the sector. Private equity players are gearing up for REITs, picking up unsold inventories, which is helping developers’ fast-pace construction activity. E-

commerce companies made some significant investments in 2014 and are also gearing up to facilitate sales /rentals of real estate units. In 2014, total value of deals in the real estate sector summed up to US\$ 1,559 million, thus there was an increase of 64% from US\$ 954 million in 2013. If we compare the number of deals then in 2013 there were 30 deals as compared to 41 in 2014, an increase of 33%. While the number of interested investors have increased, the average size of the investments have also increased year on year. The government has now allowed FDI of up to 100 per cent for townships and settlements development projects. The Housing for All scheme aims to build 6 crore houses in which 4 crore in rural areas and 2 crore in urban area by 2022

COMMERCIAL REAL ESTATE

Office market has seen growth in the recent years. The National Capital Region (NCR), is consistently the second largest office market with approximately 20% share of the annual nationwide leasing volume over the past years from 2014.

Pan India demand and share of NCR

year	NCR(percent)	Total (in mn sqft)
2014	19.9	38.7
2015	20.4	44.6

Source: Colliers International India Research

The overall available stock of office real estate was reduced marginally to the tune of 2.2 million sq ft from 2.7 million sq ft in 2013. Delhi had approximately 1.18 million sq ft of lease transactions during 2014, which is almost double of the 2013 leasing of 0.6 million sq ft. The absorption was focused in the submarkets of Okhla (24%), CBD (19%), Jasola (17%), Saket (7%) and other locations such as Aero City, Vasant Kunj, and Mohan Corporative. The NCR is

expected to remain dominant in office demand over the next five years. Delhi is expected to see a facelift with redevelopment projects over the coming years. The figure below show that changes in the city office barometer in the years 2014 and 2015. The absorption as well as construction in both the years has increase. The satellite city Gurugram is expected to remain the preferred city among corporate occupiers against the backdrop of a business-friendly environment, healthy new supply and infrastructure improvements. NOIDA is expected to come out of its image of affordable

technology hub and rise as an emerging commercial market.

Delhi office barometer

INDICATORS	2014	2015
VACANCY	DECREASE	INCREASE
ABSORPTION	INCREASE	INCREASE
CONSTRUCTION	DECREASE	INCREASE
RENTAL VALUE	NO CHANGE	NO CHANGE
CAPITAL VALUE	DECREASE	NO CHANGE

Source: collier office trends 2015

Office Market: Steady Growth and Stable Vacancy Rate

- Suburban sub-markets are now playing a bigger role; contributing more to office activity
- Bengaluru is likely to see the highest absorption during 2018-2020; absorption rate in Mumbai to surpass supply during the same period
- NCR, Bengaluru and Hyderabad will contribute more than 60% to total supply in 2018-2022

CONCLUSION

The term real estate includes land as well as building. The word ‘land’ comprises the air above and the ground below and any buildings or structures on it. It includes residential houses, commercial offices, spaces such as theatres, hotels and restaurants, retail outlets, industrial buildings, factories and also government buildings. Thus the term real estate indicates immovable property which can be either land or building or both. Real estate differs from personal properties such as furniture, money, clothing as any type of personal property is movable with the owner of it. In average annual house price index has seen a growth rate of 2.8%, .5%, 4.3%, 8.4%, 2.3% and 3% from 2010 to 2015 respectively. India average annual housing index growth rate were 8.9%, 11.1%, 8.5%, 3.4%, 6.7% and 3.9% from 2010 to 2015 respectively. India annual house price index except for 2013 has remained higher than the annual average house index growth rate. Indian real estate sector is the second largest employer after agriculture. It comprises of housing, retail, hospitality and commercial. The overall available stock of office real estate was reduced marginally to the tune of 2.2 million sq ft from 2.7 million sq ft in 2013. Delhi had approximately 1.18 million sq ft of lease transactions during 2014, which is almost double of the 2013 leasing of 0.6 million sq ft. The absorption was focused in the submarkets of Okhla (24%), CBD (19%), Jasola (17%), Saket (7%) and other locations such as Aero City, Vasant Kunj, and Mohan Corporate. The NCR is expected to remain dominant in office demand over the next five years. Delhi is expected to see a facelift with redevelopment projects over the coming years.