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## Real estate sector in India: An overview of the trends and progress

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### Abstract

Real Estate is a major employment generator which is the second largest next to agriculture in India. Real Estate has a chain linkage with the construction sector which in turn is mobilized by more than 200 industrial ancillaries of building construction and production materials like cement, steel, aluminium, PVC, electrical appliances etc. Real Estate sector have 5 sub sectors like Residential Real Estate, Commercial Real Estate, Hospitality Real Estate, Retail Real Estate and Industrial Real Estate or Special Economic Zone (SEZ) with a recorded growth of almost 30 percent per annum which is about 6.5 percent of GDP of the country and also attracting Foreign Direct Investment (FDI). Real Estate is a business which is profound in terms of investment as Real Estate market is expected to grow to INR 65000 crores by 2040 from INR 12000 crores in 2019 due to rapid urbanization, segmental rise in household income and societal emergence of nuclear families etc. and government initiative like "Housing for All". The sector had faced COVID-19 situation and restrictions like lockdown, travel bans and work from home and presently trying to recover with a dynamic interplay between government policies and buyer aspirations like tax equality, improved tax compliance, rebate on stamp duty, establishment of Real Estate Regulatory Authority (RERA), 66 percent increased allocation of Prime Minister Awas Yojana (PMAY) to INR 79000 crores in earmarked 8 Tier-I cities, 102 Tier-II cities and 214 Tier-III cities of the country. In the recent years Real Estate returns in both private and public are witnessing considerable ebb and flow that are reflected in overall sentiments of Realtors and Consumers. In our country it has been observed, Year over Year (YoY) record on sales marked 68% in 2022 for residential sector of Real Estate which signifies the magnificence of it in terms of growth and fast growing business. Tier II cities in 2022 had set the trends and benchmarks of Real Estate sector of our country with a resultant pace of growth from 2021 in spite of countrywide recessive challenges noticed with physical workforce, surge in the cost of construction materials.

This paper highlights the trends and progress of Real Estate sector in the country depicting some of the challenges and opportunities for the sector using secondary data from different sources.

**Keywords:** Real estate, India, employment generator, construction sector

### Introduction

Real Estate in India is one of the fast growing and prime revenue generating sectors of our country. After having a swell time starting with the liberalization of the economy in '90s of last century major property markets witnessed rough weather on bringing in changes of policy, reforms of structural adjustments and introduction of legislative measures. A study few years back carried out by Ernest and Young has analysed various factors driving the Real Estate sector of the country which concluded that microeconomic fundamentals are gradually emerging stronger with positively changing economic portfolios although the pandemic had created serious economic repercussions immensely disruptive throughout the country especially resulting to liquidity crisis in the Real Estate sector. Owning a property in the country even today is marked as creating an asset and profitable investment in turn. The industries allied with construction and building materials ranked 3<sup>rd</sup> among 14 major sectors in reference with direct, indirect and induced effects on all sectors. Real Estate sector contribute about one of the major source of job for unorganized sectors in the labour market of the country after the post COVID-19 situation. The sector provided jobs for over 40 million people in 2013, 52 million in 2017 and slated to employ about 60 million people in 2023. It is observed that nearly 85 percent of the workforce employed in Real Estate sector and construction industry are engaged with the constructional activities while the rest are involved with other and ancillary activities of building construction.

### Section I: Trends on decision making by a buyer in Real Estate sector in India

Real Estate sector in recent years has always been a destination featuring lucrative outcomes

as worldwide phenomena in terms of different and varied perspective either it be for personal use or in line with investing on it. It is always being a complex matrix of decision for buying and selling a property in Real Estate sector when various parameters of abilities and facets of human psychology makes an interplay of attributes and aspects like societal phenomena, behavioural concerns and financial features. Diversities and uniformities of various factors makes the people lead to a choice which are influential in determining the need and value of the Real Estate sector. Assessment and valuation of various integral factors of Real Estate property are direct exponents of psychology of the buyer. Approach of a buyer in transacting the property is also dependent on societal trends and human behaviour. It is often noticed that the decisions on property are somehow based on other factors which also are influenced by the neighbourhood. The neighbours or peers become a benchmark of trends to buy or own a property often conversely said that drop of price happened as if there was something wrong in the property when a home is for a sale in the market for a long time remains unsold.

**Economic Conditions:** Economic Conditions of a buyer in its current and anticipated form are typically influenced by decision making processes. Various factors that influence the ability to buy a property are the cost of living, prevalent bank interest rates, existing inflation levels and confidence on the present market economy. It is generally observed that the increase in the property demand are directly proportional with lower interest rates which encourage the people to avail house building loans and mortgages. The phenomenon reverse to this one is also possible where people often postpone their decisions to buy new homes where the cost of living is significantly high. Economic factors which influence the activities or growth are related to GDP in the economic system of the country. Higher demand of sustainable houses and commercial properties always push their prices up where on the contrary there is a fall of demand during economic slowdown which affects the prices negatively.

There are many other psychological factors which influences the decision making process of a property market like risk aversion. Middle income group population are typically risk averse in terms of dealing with properties or exchanging properties as a significant stagnation surfaced in property market at the time of demonetisation in 2016 because of extremely risk averse mindset.

**Other Considerations:** Some of the factors as heuristic attributes of a buyer make an effect to the decision making processes of the Real Estate sector manifested in different forms. As an example in 2010, State Bank of India earmarked a property having adequate legal documents as an imperfect one as they found some defective documentation with adjoining properties. They desired either to place them in a lower value of certain properties for extending house building loans to such properties.

An economic approach combined with consumer behaviour are not just the physical attributes of a property that leads to a better understanding and forecasting of decision making actions in the Real Estate sector.

## **Section-II: Trends on strategy of a developer in the Real Estate sector in India**

Real Estate sector is fast paced in the world of business where the housing needs of the population is mitigated by the residential sector. Innovative strategies are adopted by the developers to ensure sustained development and overall growth. Backward integration is a strategy of business where the outsource services and activities are taken into its own fold of operations.

Backward integration is an effective tool which helps the developer to streamline the activities and processes of the construction. There are different key components in the working cycle of construction such as materials sourcing, mobilisation of equipments, tools, tackles and skilled labour and a greater control on all factors give rise to optimization of timelines, enhanced quality control and reduction in project cost. Developer can ensure project completion in time by minimizing delays and cost over runs when direct access to material and labour occurs. Thus backward integration fosters seamless coordination and smooth workflows among all the stakeholders.

Besides this, it empowers developers to maintain stringent quality control measures throughout the construction process. By incorporating activities such as architectural design, engineering, and project management in-house, developers can closely monitor and supervise every aspect of construction. This hands-on approach allows for greater attention to detail, resulting in superior-quality construction. Moreover, by maintaining control over the entire supply chain, developers can ensure the use of high-quality materials and adherence to industry standards. This, in turn, leads to enhanced durability, safety, and customer satisfaction.

Furthermore, backward integration plays a crucial role in improving the customer experience in the residential sector. With a holistic approach, developers can offer a comprehensive range of services that cater to the evolving needs and preferences of homebuyers. From project conception to completion, developers can provide end-to-end solutions, including architectural customization, interior design, and post-sales services. This integration of services ensures a seamless and hassle-free experience for homeowners, eliminating the need to engage multiple service providers. The convenience and personalized touch offered by integrated developers contribute to increased customer loyalty, positive word-of-mouth, and a strong reputation in the market.

Another key advantage of adopting this model is that it drives cost efficiency for developers in the residential sector. By eliminating the reliance on external service providers, developers can significantly reduce operational costs associated with outsourcing. This cost reduction can be passed on to customers, making housing more affordable and attracting a larger consumer base. Additionally, integration allows developers to respond to market demands promptly, reducing lead times and enabling faster project delivery. The ability to offer competitive pricing and shorter construction cycles gives integrated developers a distinct advantage in a highly competitive market, contributing to their long-term growth and sustainability.

In a nutshell, backward integration has emerged as a powerful tool for growth in the residential sector. By bringing essential services in-house, developers can streamline construction processes, enhance quality control measures, and improve the overall customer experience. The cost efficiency and competitive advantage gained through

integration contribute to the long-term success of developers, while homeowners benefit from superior quality construction and a seamless home-buying journey. As the residential sector continues to evolve, embracing backward integration will be crucial for developers to stay ahead of the curve, meet market demands, and drive sustainable growth in the industry.

### Section-III: Progress of Real Estate sector -an Indian Experience

India has shown its growth faster than many economies of the world in spite of disruptive linkages of supply chain during last few years due to COVID-19 pandemic and Russia Ukraine war. Favourable environment in terms of global investment opportunities has strongly boosted up economic recovery and Real Estate resurgence by neutralizing several adverse factors of slowdown. Decade long implementation of structural reforms and initiatives boosted the growth of economy with more Foreign Direct Investment (FDI), there by revitalising Real Estate sector. Moody in its India rating complimented for a high growth despite several challenges in robust Indian Economy. The governments have taken steps to implement intense structural adjustments and regulated fiscal reforms which in term will attract in the Real Estate sector an investment of USD 1 trillion by 2030 in the Real Estate sector. The sub sectors of Real Estate are also growing significantly for providing much needed infrastructure towards growing demands there by providing immense opportunities for investors. As an example during first three quarters of FY 2022 - 2023 about 1700 acres of land are developed by leading investors when foreign investments during 2017 - 2021 rowed up to USD 10.3 billion only for commercial Real Estate.

Salient features of the Union budget 2023 - 2024 of the Indian Government on Real Estate sector are.

1. Prime Minister Awas Yojana (PMAY) budget increased by 66%, bringing it to over INR 79,000 crore.
2. Residential property investment under section 54 and 54F envisages additional capping at INR 10 crores with a deduction from capital gains, thereby limiting income for exemption from the revenues of insurance policies.
3. In case of joint property development, there has been a change of guidelines for calculating capital gains thereby including the money received in form of cheques or other instruments.
4. Acquisition or improvement of a property can be a subject of certain conditions on interest pay as borrowed capital can be claimed for deduction from income which also can be included in the cost of transfer.
5. Urban Local Bodies (ULBs) are encouraged to increase their credit worthiness from Municipal bonds through the policy of Transferable Developmental Rights (TDR) on urban infrastructure thereby implementing and expanding tax governance and reforms.
6. Urban Infrastructure Development Funds (UIDF) has been established to work with National Housing Banks for supporting priority sector lending shortfall through public agencies for creation of urban infrastructure in Tier I and Tier II cities.
7. State Governments are also encouraged to use the resources received from the grants of 15<sup>th</sup> Finance Commission.

8. Infrastructure Finance Secretariat (IFS) is a new setup for all stake holders in the area of private investments for building up infrastructure including roads, railways and power predominantly dependent on public resources.
9. Transformation into "Sustainable cities of Tomorrow" are encouraged through urban planning and reforms by the Urban Local Bodies (ULBs) which can lead to effective use of land resources, urban infrastructure and transit oriented development
10. A Body or a Authority or a Board or a Trust or a Commission not being a Company established or constituted by an Act of the Union Government or State Government with a purpose of satisfying the need of planning and development of cities, towns, housing projects are exempted to any income for regulating an activity or matter even when it is carrying out commercial activity.

Prime Minister Awas Yojana (PMAY) launched in 2015 is the flagship mission of the Union government to provide housing for all, particularly first-time home buyers where Rs 48,000 crore in 2022-2023 were allocated to complete 80 lakh houses for eligible urban and rural beneficiaries. Measures are taken to make the new personal income tax regime more appealing to taxpayers were taken as individuals will have a lower tax outgo and more disposable income under the new regime, boosting purchasing power and stimulating economic growth resulting to increase the demand for affordable homes from first-time home buyers.

The government encouraged State Government and Municipal bodies / Urban Local Bodies (ULBs) to implement urban planning reforms and actions that to transform cities into "Sustainable Cities of Future." As a result, transit-oriented development with efficient use of land resources will give rise to availability and affordability of urban land with more emphasis on urban infrastructure will stimulate growth in Tier II and III cities thus improving overall quality of life of citizens.

The budget has also given infrastructure development yet another boost, with the government allocated a significant increase in capital expenditure for the fiscal year 2023-2024. The new allocation of Rs 10 lakh crores, equivalent to 3.3% of GDP, represents a significant increase over the previous year budgetary allocation of Rs 7.5 lakh crores.

Furthermore, the government has increased the allocation to state governments for fifty year interest free loans for infrastructure development to Rs 1.3 lakh crores. These policies will have a significant impact on the infrastructure sector, boosting its growth and development. This will also have a positive impact on the overall economy, resulting in job creation and increased private participation.

The government's announcement of incentives and tax reliefs in the budget for 2023-2024 is expected to have a significant impact on the infrastructure and real estate sector. This is likely to increase investment and development activity, which will not only create jobs but also boost economic growth.

The West Bengal State Government Budget 2023 - 2024 announced the extension of a 2% stamp duty reduction and 10% circle rate rebate till September 2023. The budget also notified the establishment of WBRERA - West Bengal Real Estate Regulatory Authority and West Bengal Real Estate Administrative Tribunal

**Section- IV: Factors influencing the progress of Real Estate sector in India:** Some major factors influencing the progress of Real Estate sector in the country are as.

1. Goods and Services Tax (GST).
  2. Real Estate Regulatory Act (RERA).
  3. Foreign Direct Investment (FDI).
  4. Real Estate Investment Trust (REIT).
  5. Benami Transactions (Prohibition) Amendment Act.
1. **Goods and Services Tax:** (GST) has a productive impact on the Real Estate Sector of India. Before GST regime, multiple tax huddles were required to overcome by the buyer as well as the developer which included Value Added Tax (VAT), Entry Tax, Octroi Tax, Central Excise Duty, Service Tax thereby making the process troublesome and complex in terms of transactions and purchase. Real Estate sector has been positively impacted as detailed below by the implementation of GST.
    - Increase of transparency and reduction of unethical dealings in the system.
    - Elimination of VAT, Entry Tax, Excise Duty etc thus raising the margin in the hands of Real Estate sector, which became obsolete.
    - VAT, Service Tax were to be paid by buyers of houses under construction now made redundant.
    - There were no credit mechanism in the system of erstwhile Sales Tax, Customs Duty.
    - GST at the flat single rate of 12% is now taxable for property under construction.
    - Ready to move in properties do not attract any GST.
    - Benefits of input tax credit are available with the buyer when bought from a registered developer.
  2. **Real Estate Regulatory Act (RERA)** is a nationwide approach towards standardization which makes the dealing more realistic and transparent from which per unit cost of the construction area is to be computed by buyers. Earlier properties were sold with build-up area which included wall area with other common amenities and under new era of RERA the concept of carpet area came into picture which gives rise to a clear provision of available area in the deal.
    - Parking area is to be mentioned in the sale deed agreement.
    - Real Estate agents are required to register themselves with the competent governmental authority ensuring a legal relationship between the buyer and the agent where the risks of fleecing are reduced.
    - Timely completion of projects by developers are made a part of the Act thereby making the developer liable for delay in completion to be compensated in terms of monetary penalty and also if the buyer is not satisfied, a refund of claim has to be entertained within permissible period of time.
    - Detailed disclosure of title of the land including encumbrances with outstanding legal cases, detail description of Floor Space Index or Floor Area Ratio, full description of design, technology and materials to be used with respect to norms and standards are made mandatory.
    - Selling of property are permitted only with the agents registered under RERA who have fulfilled eligibility conditions of property dealing thereby avoiding

unscrupulous activities.

- Projects up to 500 sq meters or minimum of 8 flats are also brought under the purview of RERA regulations.
  - Separate bank account will have to be maintained with a scheduled bank by the developer with a deposit of 70% of the amounts realized from the buyers from time to time.
  - The developer will be accountable for any structural defect of the construction up to 5 years from handing over the Real Estate property.
  - State Level Regulatory Body are to be constituted accordingly for settlements of complaints, disputes and related issued of Real Estate sector thereby addressing the grievance of the buyers. The regulatory body will have the members like Chief Justice of the High Court, Secretary of Law Department, Secretary of Housing Department of the respective State Governments.
3. **Foreign Direct Investment (FDI)** where foreign investors other than Non Resident Indians (NRIs) and Persons of Indian Origins (PIOs) with a local partner are now allowed to invest in Housing and Real Estate sectors for development of Integrated townships and projects which may be a subsidiary or a Joint Venture (JV) company registered in India.

The Government of India through the Department of Industrial Policy and Promotion has permitted Foreign Direct Investment up to 100% for Townships, Housing, Airports and other developments projects not restricted to Hotels, Resorts, Hospitals, Recreational facilities including roads and bridges, multi transit system following the given guidelines.

- 10 hectares of land are required at minimum for development of serviced housing plots.
  - 50,000 sq mts. of minimum built up area are required for construction of projects.
  - Any of the above two conditions is to be fulfilled when it is a combination of two projects.
  - Funds towards minimum capitalization norms are to be mobilised within 6 months of commencement of agreement in a tune of USD 5 million of capital base for Joint Ventures with Indian partners and USD 10 million of capital base for wholly owned subsidiary.
  - Exit from the project with the approval from the Government of India can only be possible after 3 years on guarantee of on original investments with minimum capitalization.
  - 50% of the integrated project development has to be completed within 5 years on obtaining clearances from statutory authorities.
  - Regulations, norms and standards of the State Government / ULBs are to be conformed with respect to land use providing community amenities and common facilities as per laid down provisions.
  - Monitoring mechanism by the State Government / ULBs are incorporated for necessary compliance on the developer are introduced.
4. **Real Estate Investment Trust (REIT)** is introduced in 2007 by Securities Exchange Board of India (SEBI) which is a relatively new concept as became operational from September 2014 with an issuance of guidelines.
    - A Sponsor, a Manager and a Trustee are the three key

- performers for the Trust in a 3 tier structure of REIT in our country.
- Investments of at least 80% needs to be commercial properties made by a REIT can be utilized to generate income from rental use while the rest of 20% can be held as stocks, bonds etc.
  - 90% of the rental income is to be distributed to its holders as dividends or interest.
  - A REIT is mandatorily to be listed in a stock market.
5. Benami Transactions (Prohibition) Act was enacted with an objective to prohibit illegal transactions operational from 1988 with 9 sections in the original Act where benami property can be acquired by the competent authority of the Government with the power to prosecute the offenders.

In 2016 a new legislation was again promulgated as “ Prohibition of Benami Property Transaction Amendment Act 1988 “ with 72 sections to give proper procedure and mechanism to the appropriate authorities to check irregularities in the Real Estate sector.

### Section-V: Conclusion

A massive change is witnessed during last two decades in the Real Estate sector of our country like many other verticals of business. Smart Homes are no longer looked as a matter of luxury but is high on demand. Individuals and organizations are using property technologies to buy sell and manage Real Estate.

Significant changes towards sustainable home in the area of residential properties have undergone paradigm shift. To embrace the change in terms of technology and material being used by ensuring the resources judiciously for providing sustainable homes which now have gained widespread popularity.

The financial year 2023-2024 is viewed as a booming year for the Real Estate sector in accordance with the leading experts of Indian property market. There will be an estimated increase of 10-15% in sales collectively in the segment of residential, commercial and retail Real Estate in the later part of 2023-2024. A Compound Annual Growth Rate (CAGR) of 9.2% in the sector of Real Estate is projected for the period between 2023-2028.

COVID-19 pandemic forced the business environment to stay shut with an emergence of a culture “Work from Home” which now gradually made way to hybrid work environment thereby resulting for a demand of co-working flexible spaces.

New destinations besides the metros in our country have emerged for investment in the Real Estate sector. Increase connectivity, growing opportunities and well planned infrastructure are attributable reasons for development of these new destinations like Noida in Uttar Pradesh, Rajkot in Gujarat, Aurangabad in Maharashtra, Coimbatore in Tamil Nadu, Durgapur in West Bengal, Mysuru in Karnataka are worthy to be mentioned in terms of Real Estate sector.

Finally, with growing trends of awareness about the need for sustainability practices to protect the environment, property developers as well as dwellers are finding ways to be compliant, resulting in progress with time in Real Estate sector in India.

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