



# Effect of Global Recession on Indian Realty Sector and its Future Developments

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# EFFECT OF GLOBAL RECESSION ON INDIAN REALTY SECTOR AND ITS FUTURE DEVELOPMENTS

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***ABSTRACT** – The recession around the globe from 2005 till present has been considered as the toughest phase compared to Great Depression in 1930's. This had led the collapse of almost all large financial institutions, banks and stock markets around the globe. This indirectly affected the housing market that resulted in dispossessions, proceedings and extended vacancies. In India the effect on Realty sector was decrease in demand for Real estate in terms of Demand and supply as most of the working population had to undergo reduction in salaries and few layoffs. The Reduction in Rentals of commercials, Projects became stagnate, Deceleration in infrastructure projects, troubles to get fund, Unemployment and Shortage of skill workers forced the builders to reduce their prices. This paper attempts to analyze the impact of global recession on the realty sector of India, makes an effort to analyze the present overall Realty sector situation, and examines what policies are taken by Indian Government and business models that can be adapted to overcome the effect of recession.*

**Keywords- Recession, Realty Sector, Govt. Policies, Business Models**

## **INTRODUCTION**

The Real estate market was affected due to the financial turmoil in the world. The demand for the realty sector in India began to decline. The reduction in rates of properties and leases gave rise to degrading of market capitalization of many known thespians of real estate. Most of the projects had been stagnated due to non-availability of funds and the investors were bit reluctant to invest their money due to the market turmoil. This forced the builders to sell their properties to a value lower than the market price. The increase in costs, non-availability of funds, unwilling buyers have bestowed to the crisis of reality industries.

The rise in price and rates of the interest had muffled the spirits of real estate thespians. The continuous increase in the rates of interest had literally stagnated the sale of properties. The inflow of capital had become a major worry among the real estate builders as foreign direct investments had also declined.

The challenges that the realty sector faced was the rate of liquidity in real estate, shortage of land access, postponements of acclams, reduction in the development of infrastructure and less tranquility in terms of realty sector.

## **OBJECTIVES**

- To analyze the effect of global recession on realty sector of India.
- To analyze the current overall realty sector situation and to examine how can it be improved in future?
- To understand the policies taken by Government of India to overcome the recession as well improve the sector.

## **HYPOTHESIS**

- H01. There is no effect of Global recession on the Performance of selected Real Estate Industries
- H02. There is no significant difference in the growth of real estate industries.
- H03. There is no strike of Government Policies on minimizing the effect of Global recession on Indian Realty sector.

## **SOURCES OF DATA**

The primary data required for the analysis is collected through the questionnaire of major Realty industries as well as opinions of the experts from the concerned industries. The secondary research is collected or gathered from various available resources like magazines, journals, intellectual articles, research papers and many reliable websites of several service industries. The Sample size taken is 40 respondents from Real estate. The managers from Top and Middle level of the service industries form the population.

## **TESTING OF HYPOTHESIS**

The testing of Hypothesis is done by using T test and Chi square test

## **AREA TAKEN FOR RESEARCH**

Research area taken is Mumbai respectively.

## FINDINGS

- There was decrease in sanction of budget by most of the Real estate companies as the economy and current market conditions in terms of inflation and stock market fluctuations affected the organization's financial forecast. Though with government intervention there was little improvement in apportioning of budget but the operations and sales had been decline as most of the foreign institutional investors had withdrawn their money in 2009.
- There was reduction in investments as the companies were shortage of funds. Majority of the customers and shareholders had become unemployed due to lay off and the deals of the builders also got disturbed.
- The rates of flats and shops were poised before recession but during recession most of them were badly affected. The rates on raw materials before recession was high as the vendors were providing commissions to the retailers as well discounts to their regular customers. After recession the rates on raw materials had be reduced and discontinue the commissions and discounts. The rates on housing loan were also high before recession but had to be reduced after recession as most of the customers were either laid off or reduction in salary without bonus or promotions.
- There were challenges faced like Acquiring financial aid from financial institutions, raw materials and labor force, transportation as most of the drivers refused to work as they are were asked to work with less pay without boost in salary.
- The role of branding and media is very important as it helps the affected companies to frame back their brand and as well image in their market. So the realty sector on the basis on development has started giving advertising in televisions, newspapers, magazines and through sponsorships for any mega event.

## HYPOTHESIS FINDINGS

- **H01- There is no effect of Global recession on the Performance of selected Real Estate Industries**
  - **T TEST-** Since the calculated statistic T value at 5% level of significance at degrees of freedom 39 is less than the Tabulated T value 2.021 for all the parameters Budget{(1.0556) Net profit(0.2522), Tax paid(0.5042), Changes in number of employees(0.3134), Assets(0.9820),

liabilities(1.3041) and equity (0.4666)}. Hence we accept H<sub>0</sub> and conclude that there is no effect of Global recession on the Performance of selected Real Estate Industries.

- **CHI SQUARE TEST-** Since the calculated statistic Chi square value at 5% level of significance at degrees of freedom 39 is less than the Tabulated Chi square value 26.509 for all the parameters {Budget (0.5769), Net profit(0.4934), Taxes paid(0.7202), Changes in number of employees(0.0037), Assets(0.6537), liabilities(0.4405), and equity(0.64179)}. Hence we accept H<sub>0</sub> and conclude that there is no effect of Global recession on the Performance of selected Real Estate Industries.

- **H02- There is no significant difference in the growth of real estate industries.**

- **T TEST-** Since the calculated statistic T value at 5% level of significance at degrees of freedom 39 is less than the Tabulated T value 2.021 for all the parameters Growth of real estate companies(1.532), Rates on Flats(0.98167), rates of shops(1.598), Role of branding(1.0474) and Role of media during Global recession(0.4032). Hence we accept H<sub>0</sub> and conclude that there is no significant difference in the growth of real estate industries.
- **CHI SQUARE TEST-** Since the calculated statistic Chi square value at 5% level of significance at degrees of freedom 39 is less than the Tabulated Chi square value 26.509 for all the parameters Growth of real estate companies(0.11804), Rates on Flats(0.19689), Rates on shops(.00924), Branding(0.9999) and role of Media during Global recession(1.000). Hence we accept the H<sub>0</sub> and conclude that there is no significant difference in the growth of real estate industries.

- **H03 There is no strike of Government Policies on minimizing the effect of Global recession on Indian Realty sector.**

- **T-TEST** - Since the Calculated Statistic T value at 5% level of significance at degrees of freedom 39 is less than the Tabulated T value 2.021 for all the parameters - Impact of Budget (0.527), Rates of housing loan(0.387) and Rates on raw materials during Global recession(1.7968) and Risk of second recession(1.710). Hence we accept H<sub>0</sub> and conclude

that there is no strike of Government Policies on minimizing the effect of Global recession on Indian Realty sector.

- **CHI SQUARE TEST-** Since the calculated statistic Chi square value at 55% level of significance at degrees of freedom 39 is less than the Tabulated Chi Square value 26.509 for all the parameters - Impact of Budget(0.999), Rates of housing loan before and after global recession (0.98615) and Rates on raw materials before and after Global recession(0.03410). Hence we accept H<sub>0</sub> and conclude that there is no strike of Government Policies on minimizing the effect of Global recession on Indian Realty sector.

## POLICIES

1. There will 30 million houses built by 2022 under the Sardar Patel Urban Housing Mission by public-private-partnership, interest subsidy and increased flow of resources to housing sector.
2. The Securities and Exchange Board of India has notified the final regulations that will govern the real estate investment trusts and infrastructure investment trusts in order to enable easy access to those funds for cash-strapped developers and to create a new investment avenue for institutions and high net worth individuals and for ordinary investors.
3. The Government of India has proposed to release the Real Estate (Development and Regulation) Bill. This bill will help the flow of funds from domestic and foreign investment into the sector.
4. The Finance Ministry has floated a draft cabinet note to amend the Foreign Exchange Management Act in order to permit overseas funds in real estate investment trusts (REITs).
5. The government of India has allowed FDI of up to 100 per cent in development projects for townships and settlements.

*Transforming Research*

*June 2015*

## **FUTURE DEVELOPMENTS**

1. The Assotech Realty has bound up with Lemon Tree Hotels .These companies will launch eight to ten projects over the coming seven years with an investment of Rs eight to nine thousand million i.e. US\$ 129-145 million approximately.
2. The L&T Infra Finance Private Equity (PE) is planning to raise Rs 37,500 million (US\$ 607 million) in an overseas and a domestic fund to launch a real estate fund.
3. The Goldman Sachs is planning to invest Rs twelve thousand million (US\$ 194 million) in order to build a campus in Bengaluru which can fit around 9,000 people.
4. Snap deal has entered into a strategic partnership with Tata Value Homes to sell the their apartments on its e-commerce platform, which makes the Snap deal the first e-commerce company to be tied up with a real estate venture.

## **SUGGESTIONS**

1. There is a need for re-evaluation of marketing plans, policies, product pricing and performance of employees. During turbulent times, the employees need to be taken into confidence and ask for their suggestions and opinions.
2. The Realty sector must focus on the existing core business rather than starting different businesses during recession as it will help them to build their brand and image in the market.
3. The Indian Government has to promote mutual funds and trusts on Real Estate companies which shall help the people to invest in these funds.
4. Proper infrastructure needs to be catered so that it helps in development of many cities in Mumbai as well other metropolitan cities.
5. Need for more and more public-private partnership projects.
6. Organized, effective and finer technology in construction with best options of raw materials and trained engineers has to be catered by the realty developers.
7. Venturing into Joint ventures and acquisitions during troubled times shall enhance the position as well image of the companies in realty sector market.

8. The companies should give prominence to marketing and promotions as it shall enhance the maximum number of clients who may require the services of the companies to fulfill their projects or assignments on time.
9. Increase in new ideas and bring in of innovative product designs shall provide an advantage over competitors.
10. The government of India should promote Research and Development in the country.

## CONCLUSIONS

With the Finance Ministry's intervention in the form of cushioning of borrowing rates of interest more to the real estate sector will provide a convinced effect on the developers and consumers. The market size of the sector is likely to touch US\$ 180 billion by 2020. The Government of India has apportioned US\$ 1.3 billion for Rural Housing Fund in the last Union Budget 2014-15. It also apportioned US\$ 0.7 billion for National Housing Bank (NHB) in order to increase the flow of cheaper credit for affordable housing for urban poor. The introduction of major private players in the education sector has generated ample of opportunities for the real estate sector. The growth of nuclear families and urbanization has raised many townships. The increase in the number of tourists has given rise to service apartments. This demand is provided opportunities for this realty sector.

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*Transforming Research*

*April 2011*



**International Research Journal**

p-ISSN 2202-2821 e-ISSN 1839-6518 ([Australian ISSN Agency](#))

