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Real Estate Sector in India: Challenges and their Solutions

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Abstract
The real estate sector is one of the most globally recognized sectors. In India, real estate is the second largest employer after agriculture and is slated to grow at 30 per cent over the next decade. The 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. The Indian real estate sector has witnessed high growth in recent times with the rise in demand for office as well as residential spaces. But this sector also face severe problems. Though the government take various initiative to resolve the problems of the investors. Government also permit the FDI to make 100% investment in this field, but still this sector face problems. So, in this article, we present the problems face by the investors and their private and government solutions to promote the sector. Though after the demonetization, this sector run in downward direction but they have opportunity to boost the market because in India, there is highly demand of residential and commercial properties especially low cost property. Today's, contribution of this sector in GDP is 5-6 %,to increase their contribution, government take intervention in this sector and resolve the problems of the investors, so that the real estate sector also increase their contribution in the development of the country.

Keywords: FDI, Problems face by Investors, REIT, RERA, and Public Private Model

Introduction
Real estate includes land and permanently fixed structures like building, sheds and other items attached to the structures. Property comprises land and other buildings on it as well as the natural resources of the land

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. The Indian real estate sector has witnessed high growth in recent times with the rise in demand for office as well as residential spaces. But this sector also face severe problems. Though the government take various initiative to resolve the problems of the investors. Government also permit the FDI (Foreign Direct Investment) to make 100% investment in this field, but still this sector face problems. So, in this article, we present the problems face by the investors and their private and government solutions to promote the sector. though after the demonetization, this sector run in downward direction but they have opportunity to boost the market because in India, there is highly demand of residential and commercial properties especially low cost property. Today's, contribution of this sector in GDP is 5-6 %,to increase their contribution, government take intervention in this sector and resolve the problems of the investors, so that the real estate sector also increase their contribution in the development of the country.

Objective of the Study
The following are the main objectives of this paper relevant to the current market:
a) To study the Real Estate Sector in India

b) To examine the problem face by the investors in Real Estate
c) To examine the impact of government policies

Methodology of the Study

The study is based on the secondary sources of data. The main source of data is various journals, articles, newspapers, online database etc.

Real Estate Sector in India

The real estate sector is one of the most globally recognized sectors. In India, real estate is the second largest employer after agriculture and is slated to grow at 30 per cent over the next decade. The 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. The Indian real estate sector has witnessed high growth in recent times with the rise in demand for office as well as residential spaces.

According to the department of industrial policy and promotion, the construction development sector in India has received FDI (Foreign Direct Investment) equity inflows of US $23,874.1 million in the period of April 2000-September 2014.Also in the period of 2008 to 2020, it is expected that the market size of this sector is increased upto 11.2 percent. Retail, hospitality, and commercial real estate are also growing significantly, providing much needed infrastructure for India's growing needs.

FDI in construction development sector as a percent of India's total FDI from 2012 to 2016

Year	FDI
2016	8.40%
2015	9.40%
2014	10.71%
2013	11.42%
2012	6.53%

Source: department of industrial policy and promotion

Challenges

Though the government take several initiatives for driving the growth in the real estate sector including liberalization of FDI norms during 2005, implementation of the SEZ act and permission for PE funds to enter the sector. Government also supported by a booming economy, favorable demography, improving life style, and evolving sources of finance, among others. However, recently, the industry is seeing a changing profile with shift in consumer preferences and rising interest. Developers are becoming more organized and transparent to leverage opportunities in the market. The sector interest rate also sensitive, since majority of purchase depends on borrowed finance, due to large capital requirements, including this, sector also face some challenges like

- Lack of clear land titles,
- Absence of title insurance,
- Absence of industry status,
- lack of adequate sources of finance,
- Shortage of labour, rising manpower and material costs,
- Approval and procedural difficulties.
- Lack of consistency in rules relating to development of SEZs,
- Tightening of rules for lending to the real estate sector,
- Delay in projects
- Price and bad quality of construction
- Errant builders sells their projects without the approval of plans

Not only this, others are, increase key rates by the RBI several times, India is witnessing high urban population growth but India's per-capita urban infrastructure spending is very low, thus, restricting the real estate growth. While there is a good demand for housing and commercial projects in the country, the non-availability of land within city limits along with the rising land and construction cost is leading to an increase in the overall cost of the projects. Thus, making the projects unviable. There is a lack of coordination between central and state ministries. Further, numerous central and state level laws, rules, and regulations often result in a lengthy and cumbersome approval process. The lengthy and complex approval process leads to a high gestation period which eventually results in project cost escalation by 20-30 per cent. Currently, 30 to 40 approvals are required for any project which generally takes about two to three years. Low floor area ratio (FAR), density norms, ground coverage, parking provision, etc., also pose as a challenge for the real estate. With several taxes, such as stamp duty, value added tax (VAT), etc., accounting for about 30-35 per cent of the total housing cost, the final sale price of the unit increases. This makes property unaffordable. Stringent development and environmental norms lead to sub-optimal utilization of land and also raise the per unit value. Limited foreign funding sources and underdeveloped equity and debt markets also pose a challenge for the Indian real estate. Owing to lack of advanced technology and skilled manpower, the overall project economics is not achieved and there are further delays. In fact, at present, 25 per cent of housing projects in India are delayed due to this issue.

Initiatives taken by Government to resolve the problems

Despite of all these challenges government take some initiatives to resolve these challenges. Though all the companies shows development in the years from 2009 to 2013 but after 2010 all the companies shows downward direction in the revenue and profits margin due to market globalization and government restrictions. Government of India has taken several steps to encourage the development in the sector. Not only this, government of India relaxed the norms to allow foreign direct investment in the construction development sector. The government of India permitted foreign direct investment (FDI) upto 100 %in this sector. The reason behind this is to bridge the gap of huge shortage of housing in the country and to attract new technologies in the housing sector. Even, the Real Estate Regulatory Bill is routed to give boost to the realty sector. The securities exchange board of India has also notified the final regulations that will govern Real Estate Investment Trusts (REITs).It will help the investors and developers for easy access of funds and create new investment avenue for institutions and investors. Real Estate Investment Trusts (REITs) are to real estate what mutual funds are to equities and bonds and are publicly traded like common stocks on various exchanges. They provide hassle free and a convenient way to invest into real estate market providing diversification benefits with low liquidity risk. It means shares can be sold at low impact cost In absence of Real Estate Investment Trust(REITs), the obvious investment alternative is to accumulate money for buying a home would be equities, bonds, or gold (as per your risk-return objective) and then subsequently liquidating those investments in the end to buy the property. But with Real Estate Investment Trusts (REITs) we can directly invest smaller sums in the security over a pre-determined time horizon and then liquidate your investments when the time is ripe to buy our home. Real Estate Investment Trust (REITs) allow us to invest smaller amount of our savings into real estate which otherwise would not have been possible. Supporting this growth, a number of factors are working in the favor of real estate, including the need for 11 crore houses by 2022, 100 Smart Cities projects, focus on affordable housing and Housing for All by 2022, among others. For such trusts, plans were announced by PM Narendra Modi and Finance Minister Arun Jaitly on 10th July. The government has declared investment to the tune of Rs 97,000 crore on roads and the focus on rail and airport connectivity has also been increased, thus, paving a way for the creation of additional townships and increase real estate activity in the country. However, the path to success is always not easy. Government of India passed the Real Estate Regulation and Development Act in the last year May 1, 2016. It brings clarity and fair practices that would protect the interest of buyers and also impose penalties on errant builders. Each state and union territory will have its own regulator and set of rules to govern the functioning of regulator. RERA seeks to address issues like delays, price quality of construction, title and other changes. Government of India takes various initiatives to make easy and transparency in this sector. Government of India, also announced GST on July 1,2017.The new tax transform the India, One Nation, One Market, One tax, principle by subsuming a host of indirect taxes and implementing a simpler tax on goods and services. Whether the person is buyer, seller, developer, intermediary, financer, or investor, GST will impact everyone in the Real Estate Sector in many ways. GST brings transparency in taxation. According to the report of Edelweiss Securities in Indian Express, with GST, the perception of the sector is improved, the prices are likely to drop around one to three percent. Real estate sector has implications on developers, buyers encompassing cost of land, material and building cost. In GST the cost of materials to be taxed at different rates. Cement, paints and plasters to be taxed at 28% while iron material to be taxed at the rate of 18%. Also the service charge given to the realtor for assistance in buying or selling the house, which is 15% now, will considerably rise to 18% with GST.

Suggestions

There are various other solutions too, including government reforms. The government must provide incentives to the public and private sectors to take up R&D activities for new building materials and technologies so that industry can deliver low cost, affordable, and sustainable and environment friendly housing and building structures. In order to deal with an inadequate policy framework and project delays, the government should decentralize decision-making process and empower urban local bodies. The approval process should be streamlined by introducing single-window clearance mechanism backed by technology. Building development norms such as low density norms etc. should be reconsidered, Fees and taxes should be rationalized across project stages as they increase the construction cost by 30 to 35 per cent. Public Private Partnership (PPP) framework should be adopted to effectively address the major issues of the Indian real estate. A nodal agency to coordinate effort of various stakeholders should be formed.

More funds should be allocated for the growth of the real estate. Foreign Direct Investment (FDI) in real estate should also be promoted to increase the funding sources. Cuts in interest rates should be announced to reduce the cost of borrowing and to help clear the unsold inventory and support future demand. Government and even the private sector should increasingly focus on skill training and technology to bridge the gap.

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