

## Current Real Estate Industry and Future Prospects

The overall real estate industry in India is in the grip of a two year old downturn as prospective home buyers shun purchases leaving developers with high levels of unsold inventory. In addition to dwindling sales and the struggle to repay creditors, delayed project approvals and changes in local building regulations adds fuel to the fire. The entire negative environment is crippled by the high interest rates in a persistent inflationary scenario. Reserve Bank of India (RBI) data suggests the banking system seems to have turned the tap off for property developers over the past year. This has, in turn, made developers either stop construction or cut prices.

A developer's biggest challenge now is to regain that lost faith and win the confidence of homebuyers. The loss of faith isn't an overnight phenomenon. It has taken place over a period of time. Developers in the past have launched massive townships and projects by the dozen, and often times used customer advances to buy land or launch other projects, delaying construction by months and even years.

The shortage of urban houses stood at 18.8 million units in 2012, and it is expected to grow at a compounded annual growth rate of 6.6% for 10 years till 2022, when it will reach 34.1 million, according to a report by the research and consulting firm RNCOS and cited by the *Press Trust of India*.

Rising inventory levels where housing shortage is such a crucial issue solely reflects the fact that the supply available is largely unaffordable to the genuine home buyers. The National Democratic Alliance government led by Prime Minister [Narendra Modi](#) in an attempt at reducing the shortage and improve affordability launched three government schemes—the Smart Cities mission, Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and Housing for All mission at an expected cost of around Rs.4 trillion in June, 2015.

While the Make in India campaign may bear fruit in terms of generating jobs, enhancing migration to metros, the entire transition needs to be footed on a government backed regulatory authority. All government departments and institutions involved in the real estate industry needs to be held accountable rather than pointing the final finger at the developer alone.

The Housing for All scheme aims to provide at least 20 million homes to lower-income earners. These apart, a real estate bill that is aimed at primarily protecting consumer rights is also waiting to be cleared.

The real estate sector, meanwhile, seems to be in a transition stage, where it is gradually moving from an investor-driven to an end-user-driven cycle. Interest rates are slowly coming down and affordability will improve. The developers need

to focus on executing the existing projects, the completion of which will rebuild customer confidence and in boost sales momentum.

### **Real Estate Industry in the Kerala context**

The Kerala real estate industry is seen as one that is constantly changing, lack of a long term vision and continuously evolving. However, this does more harm than good as the end result is mere fire-fighting. While innumerable initiatives have been undertaken, some see the light of day, some lose steam at the outset and yet there are many that remain purely on paper.

While the Vizhinjam Project, Energy Efficient Lighting system, Water Harvesting are some of the commendable initiatives, it requires the combined and consistent support of the government at the state and local level. The panchayat system needs to step up, take onus and execute & implement reforms which contribute to the overall growth, infrastructure and sustainability of each individual village/panchayat. Kerala, being limited in geographical coverage and with a diversified NRI / Outstation population, each town/village in a hotspot on its own when it comes to real estate scenario.

Kochi, Calicut & Trivandrum take the lead as far as the real estate industry is concerned. Kochi is known for its connectivity via rail, road & ports, job creation, upcoming metro project, tourism and infopark. While areas like Kakkanad face a demand-supply impasse, other areas are taking advantage of the lack of supply situation. Calicut on the other hand is host to numerous academic institutions including IIM. The upcoming monorail shall enhance connectivity. Trivandrum as the state capital has been known to be home to a majority of government employees. The technopark has aided in attracting a diverse profile of professional all adding to make the scenario all the more vibrant.

The primary reason for the real estate sector explosion and pricing reaching mercurial heights is primarily on account of the geographical limitations of land as well as a speculation on the unlimited NRI buying power. While the trend started in early 1995, the market was booming during the period 2002 – 09, where investors flocked in boosting prices to unthinkable levels, resulting in a scenario where the current common man is currently not in a position to afford a home for himself. The inherent land cost in the state where “land” resource is in acute shortage is what has primarily caused this crisis. The rising labour cost and non-availability of skilled labour has also added to the woes of the industry.

Land is available on a more economical note on the outskirts of the city. However, the lack of proper infrastructure and connectivity is preventing the buyers for opting for such locations as well as the builders from launching projects in such areas. Another glitch in the entire system is where private players hold blocks of

land, artificially regulating the market prices. Giving the government's mission of housing for all, it would be appreciated if the government could implement a single window scheme at all levels for expediting project clearance and setting up a system to provide developers with land at cheaper rates according to a specific master development plan. This would ensure sustainable and distributed growth pattern in the years to come. Moreover, land can then be made available to genuine buyers rather than be treated as a commodity in a speculative market.

As indicated earlier, support from banks is also negligible especially on the interest front. Though the repayment period is considerably longer than most other loans, the interest burden forms almost an equal share of the capital, making repayment a herculean task. Kerala being essentially a NRI remittance economy and the recessionary effects being felt in and around the areas of Middle East and Europe, a well thought of support scheme needs to be implemented to prevent a downturn in the state economy.

While a few scams have shaken the buyer confidence, timely execution of projects will prove crucial in retaining investor confidence.

### **Real Estate in the Thrissur context**

Real estate is one of the sunshine sectors of city of Thrissur's economy. Land availability, image of a clean and green city, good law and order situation, presence of reputed educational institutions and tremendous scope for promoting tourism industry are the pillars of Thrissur's real estate hopes. With Kochi becoming more and more congested day-by-day, in due course of time the city of Thrissur is expected to see a spurt in the number of property buyers. City of Thrissur has always been a favourite among builders of repute as it is in the centre of Kerala state. Further, the tourist traffic to the adjoining Guruvayur Temple is demanding an increase in accommodation facilities.

Thrissur real estate is primarily dominated by the genuine home seekers rather than those on a speculative note. As such, it has been witness to consistent and steady growth over the last couple of decades. The profile of buyers are essentially of the salaried segment, NRI's and people who are currently working in different cities of India and looking forward to retire and return to roots. There is yet another population group looking at coming from the interiors into the town area to access amenities related to education and healthcare. Renowned for its entrance coaching classes, the heavy annual flow of students to the popular entrance coaching centres in the city is another factor that has accelerated investments in flats.

According to real estate consultants Cushman & Wakefield, the presence of a number of educational institutions, leading hospitals are instrumental in driving the demand for residential property. A Cushman report says that the availability of

land and preference to villas have convinced developers to go in for niche products, even though apartments are coming up in key locations where land is scarce. Being the cultural capital, Thrissur has its own set of aura when it comes to imparting social and moral values. The topography and road network too are unique in its own way, since it provides easy access to all amenities without going through the congestion and traffic as seen elsewhere.

The real estate industry in Thrissur is a significant contributor to the corporation treasury. Besides it is also one of the highest segments of job generation and revenue yielding in terms of investment. However, there seems to be significant lacunae when it comes to a similar support on behalf of the government. This step-motherly approach has a significant impact on the industry which happens to be one of the pillars of the economy. Thrissur Corporation stands to benefit an increase of Rs. 4 crores, year-on-year as taxes exclusively. In terms of revenue, the Thrissur real estate industry contributes over Rs. 50 crores in revenue each year. Of the total turnover in the market, the government is in receipt of nearly 40% of the same as taxes. Taking an annual turnover of Rs. 500 crores for the Thrissur market, we are looking at a whopping Rs. 200 crores for the state ex-chequer.

Another highlight worth mentioning is that Thrissur as an independent market has been free from scams that have been witnessed in other areas, owing to a demand explosion. The current growth projections are on the eastern front which will merge with the northern territories and the western front which in due course of time will meet the ripple growth happening from Kochi and Alwaye.

The booming realty sector has also encouraged the growth of auxiliary industries. Scores of shops selling floor tiles, construction materials and household products that suit modern living have come up in the city. Landscaping has also emerged as a value addition facility since the buyers insist on green ambience. The increased inflow of tourists is also paving way for the growth of serviced apartments in Guruvayur and Thrissur, not only creating another niche segment but also serving as an alternate employment generating category.

Given the land prices in the heart of the city, purchase of requisite land and construction of an independent home has become a herculean task especially when it comes to financial outlay. The buyer is then left with only two options, either to move to the outskirts or to opt for a flat within the city. The general consensus indicates to the latter where the client prefers to be near all basic amenities without being part of the traffic and congestion as seen in other cities. This is combined with the added advantage of community living and the security that the apartments and a gated community provide. The common facilities provided by the flats are also an attraction as they tend to break the monotony of living alone.

While there is substantial work that needs to be done in terms of reforms, project clearance, department accountability, local government contribution to name a

few, Thrissur remains a favoured destination when it comes to investment in a home for the genuine buyer. For an investor, Thrissur provides for realistic growth as has been seen over the last couple of decades.

### **Metamorphosis of dwelling culture in Thrissur**

The initial baby steps on the real estate front started way back in the 70's where people started investing in plots paving the way for a gated community formation. One needs to keep in mind that in taking Kerala as a whole; only 30% of the land can be developed for residential purposes. Land at that time being affordable and with the onset of the nuclear family revolution, real estate activity started to pick up steam.

Sheethal Properties located on the northern side of Swaraj Round, was the first commercial cum residential property. Witnessing the increasing appetite, Sarada Developers came in to the scene specialising in high rise apartments and ENARC carved a niche in building relatively smaller residential dwellings. Skyline was the first builder to provide for a comprehensive villa gated community, complete with all amenities and in compliance with all governmental sanctions and regulations. The primary reason for the immense market growth was the increased acceptance to the flat culture similar to what each client was used to outside of Kerala. In addition, land was also increasingly affordable and the first time buyers of the nuclear family revolution needed an address to set up base.

Another key contribution by the builders and developers has been on the job front. Excluding the ad-hoc contractors, the registered builders directly employ over 4000 people and over 10000 people indirectly. This is by no means a minor contribution, since these statistics pertain to Thrissur alone. The end result is the construction and sale of over 1000 units in a year. On the revenue side, this would translate to an annual turnover of over Rs. 500 crores. A substantial portion of which goes to the government in the form of taxes.

As indicated earlier, with only 30% of the state land available for residential development, the only probable and logical solution to the housing crunch is in going vertical. The National Housing Scheme too is increasingly promoting the development of vertical structures. While the land prices in the heart of the city are spiralling out of control, moving to the outskirts is another trend being witnessed. However, this is far from an ideal form of developments. Given the immense propaganda of affordable housing, it will fall short of its promise without specific government intervention in curtailing the land price explosion. We also need to note the absence of infrastructure on behalf of the government departments when it comes to obtaining electricity / water connection, basic drainage provisions and also areas related to waste disposal and management. Even if these basic amenities are provided for, it is only after huge delays and that too with interrupted services.

Having said all this, what we need for the future is a planned and systematic approach to ensure a balanced development vision. While our natural resources are fast depleting and the ecological balance hanging in danger, a sustainable plan needs to be drawn up by the government in tandem with the builders & developers and the representatives of the mass population, to ensure that we strike a balance on all fronts. Going forth ignoring ecological and environmental warning will lead to irreversible damages.

Therefore with much trepidation, I sincerely hope that the government along with all our support will come up with a long term vision and a sustainable development plan to ensure that all living creatures are entitle to a fair share of Mother Earths natural resources and avoiding any sort of undue exploitation in an attempt to leave behind a legacy for the generations to come.