



INVESTMENT IN GOLD AND REAL ESTATE – A STUDY OF INVESTOR PREFERENCE IN KERALA.

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Abstract

The investment climate in Kerala has recently undergone significant changes with the availability of various avenues of investment. Traditionally the people of Kerala have an affinity to assets like gold and real estate. Investors need to weigh the risk-return ratios of various asset classes carefully to construct a judicious mix of an investment portfolio. Gold has an extremely positive feature of low correlation with most of the other asset classes and it is the second most preferred investment after bank deposit. It is traditionally considered as an effective hedge against economic contingencies. Real estate generates return in the form of interest and capital appreciation. It also offers productivity based income. Real estate can be used for different purposes like residential, commercial, mortgaging and entertainment. The convenience sampling technique used in the study unraveled the growing investment interest of individuals in gold and real estate. The study has generated valuable information about the asset management among different groups of people, their demographic profile, major factors influencing investment decisions etc.

Key words: Investment ,Assets, Gold, Real Estate.

Introduction

The term investment refers to the purchase of a financial product or other item of value with an expectation of favorable future returns. In general terms, investment means the use of money in the hope of making more money. With the fast changing lifestyle of Keralites, the State has witnessed a major growth in the investment habit among people. Traditionally the people of Kerala have an affinity towards gold and real estate. A large majority of households are still very conservative in their investment strategies and prefer these two assets for investment. Investors need to exhibit preferences for certain assets based on a variety of potential characteristics such as risk and return, liquidity, tax considerations and possibly due to several cognitive biases also.

Investors generally buy gold as a hedge or safe haven against any economic, political, social or fiat currency crises. The global meltdown (2007-09) has made many investors nervous and there has been a lot of interest in buying gold as a safe alternative in a falling market. When the assets like real estate, stocks and bonds collapse, gold has historically seen huge increases in value as people make a quick flight to quality and reliability. Throughout the history, gold has been an asset that protects wealth and has the ability to grow wealth, especially when the real estate and stock market moves in the negative territory.

Gold's unique properties as a store of wealth, it's relative safety and liquidity, and it's diversification properties (such as low volatility and low or negative correlations to other financial assets) have ensured that it remained as a popular investment vehicle. In Kerala, gold is more a social symbol than a prized investment and it is embedded in the culture. Of the total demand for gold in India, 45 percent comes from Southern States and Kerala is the leading gold purchasing state among them. The demand for gold coins and bars is high in the State which shows that the number of people considering gold as a better investment option has gone up.

Real estate assets have many characteristics that distinguish it from assets like gold. Real estate markets are relatively illiquid, with most owners holding on to assets for long periods of time for residential purpose and, purchasers of property tend to be exceptionally reliant on external debt finance. Real estate is usually used as collateral in such financing arrangements. The past couple of decades witnessed price booms in real estate markets in a number of developing countries, as well as collapses in some other cases. With the rapid rise in the middle class population, major cities of Kerala are experiencing a real estate boom.

Statement of the Problem

It is a complex task to analyze the significance of each of the factors that influence the investment decisions. Though investment in gold does not earn interest, it has historically generated return above the inflation rate. Its use as an investment has traditionally been more in the way of an insurance against a depression or a similar economic instability. In Kerala, investment in gold is relatively lower due to low awareness among investors and the sentimental attachment towards holding gold in physical form.



One characteristic of the real estate is that the supply is localised and can only respond with a considerable lag to demand developments. It is an illiquid asset compared to other investment assets. This along with a lack of transparency in property markets, the stickiness of rents, an inability to short sell and the widespread use of real estate as collateral in loans has resulted in a tendency for property prices to be more likely than other asset prices to deviate from its long term fundamentals in the short run.

Significance of the study

The area of study is investment management which has interdisciplinary relevance. Research on investment habit comes under the purview of various disciplines of social science. The study of investment preference in Kerala will contribute some new dimensions to academic knowledge in the subject. It also enhances the investor knowledge regarding where they should invest. The present study will generate valuable information about the asset management among different groups of people, their demographic profile, urban-rural difference in investment habit, major factors influencing investment decisions etc.

Objectives of the Study

The broad objective of the present study is to make a comparative assessment of the investment preferences of the households in Kerala. Investor's perception will provide a way to accurately measure the collective demand for a particular asset class. The specific objectives of the present study are:

1. To analyse the significance of gold and real estate as investment assets.
2. To examine the factors influencing the investment habit of people in Kerala.
3. To evaluate investors' preference for gold and real estate in investment decisions.

Methodology and sources of data

The data for the present study are collected from both primary and secondary sources. Primary data is collected by conducting a sample survey in Ernakulam District through questionnaire method. Selection of the source of data was through convenience sampling method. Sample size was 500 people of which 424 men and 76 are women. In order to understand the investment habits of people, different age groups were involved in the sample survey. Questions were based on the socio-economic profile of people and their investment preference. Various government reports, economic journals and magazines, leading economic dailies and internet were the major sources of secondary data. IBM SPSS statistical package is used for data analysis.

Limitations and Universe of the study

The study will be limited to the investment preference of households in Kerala in two specific assets - real estate and gold. The data analysis of the study are confined only to Ernakulam district so that it may not be applicable to other parts of the state or country. The responses of the interviewees could be biased and the study being a sample survey reflects the limitations of such a study. The results of the study could be influenced by such factors, which are beyond the control of the researcher.

Review of Literature

Ritu and Ankur (2012) states that the demand for gold has increased as a store of value and also as an important alternative asset class which provide investment benefits. If the returns on bonds, equities and real estate are not adequately compensating for risk and inflation then the demand for gold and other alternative investments (such as commodities) increases. Radhakrishnan (2011) observes that gold jewellery is the second-most sold product in Kerala's retail market after food products. While food products occupy 51 per cent of the state's retail market, the share of gold jewellery is 21 per cent. All Kerala Gold and Silver Merchants Association, cites a survey which shows that 37 per cent of people in Kerala favored gold as the safest investment option followed by capital market and real estate that were preferred by 26 per cent and 23 per cent of respondents, respectively.

According to Unger (1969), the word 'realty' is generally used as a synonym for real property which means strictly speaking, the interest in land. Real estate is basically a term that has come about as the result of commercial usage. Singh (2007) classifies the real estate into two categories- urban and rural. It seems the much talked appreciation in price is primarily in the case of urban (and expected to become urban) real estate. It is important to see why the appreciation has occurred. The usual reason given is a rise in population, income etc. With no major industrial history to speak of, the sudden spurt in the realty prices during 2003-07 in the cities of Kerala are driven by the thrust from NRI remittances and the tourism sector. Abdelgalid (2006) observes that, in the long run, real estate prices depend on demand factors like national income and average discount rates, and on supply factors like cost of construction, availability of land, and the quality of the existing stock of real estate. One should consider these factors while investing in real estate.



Significance of Gold as an Investment Asset

Traditionally, India is the largest consumer of gold in jewellery form. Gold is valued in India as a savings and investment vehicle and is the second most preferred investment option after bank deposits. It is one of the most liquid assets available for investment. It helps in portfolio diversification and can be pledged easily to raise money. In comparison to other high return paying investments like stocks and real estate, gold is a low risk investment. Even in a recession hit economy, gold fares well. Therefore, it is considered as the safest investment during recessionary times. However, gold price may fall or not appreciate due to a clutch of global factors. Gold itself doesn't generate an income. Again, the costs and hassles of storing gold coin and bullion is another issue. Its price appreciation potential is also challenged, especially in the recent times. The price of gold is mainly affected by changes in sentiment, rather than changes in annual production. According to the World Gold Council, annual mine production of gold over the last few years has been close to 2,500 tones. About 2,000 tones goes into jewellery or industrial/dental production, and around 500 tones goes to retail investors and exchange traded gold funds. This translates to an annual demand for gold to be 1000 tones in excess over mine production which has come from central bank sales and other disposal.

In Kerala, an average of 60-70 tonnes of gold is sold annually, contributing around Rs.200 crore to the State exchequer in the form of tax. This huge demand is attributed to the growing remittances by its 20 lacs strong non-residents based in the Gulf countries, Europe and the US. It is estimated that demand for gold in Kerala grows by 15 percent every year which is more than the national average of 13 percent.

Significance of Real Estate as an Investment Asset

Real estate investment involves the commitment of funds to property with an aim to generate income through rental or lease and to achieve capital appreciation. Real estate investing involves the purchase, ownership, management, rental and/or sale of real estate for profit. Improvement of realty property as part of a real estate investment strategy is generally considered to be a sub-specialty of real estate investing called real estate development.

Real estate investment has lot of advantages. It provides a stable base from which one can operate, whether it's simply a residence or also an office. Real estate is an asset class which can generate both interest and capital appreciation. It can be used for different purposes like residential, commercial, entertainment, mortgaging etc. There are various factors that influence investment in real estate. Globalization and liberalization measures, increased flow of Foreign Direct Investment (FDI), monetary and fiscal policies, increase in corporate profit, higher disposable income with public, price of alternative investment assets etc highly influence the real estate investment in a country.

Real estate assets have certain negative characteristics too. It is an asset class with lower liquidity when compared to other investments. Such assets cannot split into tiny units as in the case of gold or equities. In case of real estate assets, property tax is another negative aspect. Real estate is also capital intensive (although capital may be gained through mortgage leverage) and is highly cash flow dependent. If these factors are not well understood and managed by the investor, real estate becomes a risky investment. Real estate maintenance and selling takes time and effort. Hence, the investment best suits for large investors with sufficient capital, skill and risk appetite.

Data Analysis

The data collected from 500 samples through questionnaire method have been interpreted and analyzed to find out the investment preference of individuals which are mentioned in the following tables

Table: 1 Age Composition

Age Classification	Frequency	Percent
21 - 30 Years	14	2.8
31 - 40 Years	44	8.8
41 - 50 Years	234	46.8
51 - 60 Years	184	36.8
61 - 70 Years	24	4.8
Total	500	100.0



Out of the 500 people surveyed, majority of them belongs to the 41-50 age class (234 nos.) which comes near to half of the total population. 184 individuals are in the 51-60 age groups. Senior citizens are 4.8 percentage and youngsters (21-30 yrs) are 2.8 percent only.

Table: 2 Gender Compositions of Investors

Gender	Frequency	Percent
Male	424	84.8
Female	76	15.2
Total	500	100.0

Table: 3 Educational Qualifications

Educational Qualification	Frequency	Percent
SSLC and Below	120	24.0
+2 and ITC etc	96	19.2
Diploma	22	4.4
Degree	150	30.0
Professional Degree	26	5.2
Post Graduation and above	86	17.2
Total	500	100.0

Table: 4 Occupation of the respondents

Occupation	Frequency	Percent
Govt Employee	156	31.2
Pvt. Sector	136	27.2
Self Employed	130	26.0
Others	78	15.6
Total	500	100.0

Table: 5 Annual Incomes of the Respondents

Annual Income	Frequency	Percent
Upto 2 L	176	35.2
2L to 5L	124	24.8
5L to 10L	120	24.0
10L to 15L	62	12.4
15L to 20L	8	1.6
Above 20L	10	2.0
Total	500	100.0

Table: 6 Assets owned by the Respondents

Assets owned	Frequency	Percent
Gold	144	28.8
Real Estate	46	9.2
Stocks	10	2.0
Bank Deposit	114	22.8
Others	10	2.0
Gold & Real Estate	80	16.0
Gold & Bank Deposit	30	6.0
Gold & Bonds	66	13.2
Total	500	100.0

The investment pattern of individuals in Ernakulam District is not centered on a single form of asset. Rather, a major section of people have diversified assets. 28.8 percent of people keep their assets in Gold. With 9.2 percent, real estate seems to be another favored option. Bank deposits are always favorites to people. 22.8 percent of people prefer bank deposits. 16 percentages of people have both real estate and gold assets.



Table: 7 Favorite Investment option

Investment asset	Frequency	Percent
Gold	322	64.4
Real Estate	178	35.6
Total	500	100.0

Table: 8 Possession of real estate assets

Response	Frequency	Percent
No	290	58.0
Yes	210	42.0
Total	500	100.0

Out of the total 500 households surveyed, 210 individuals, that is, 42 percent own assets in the form of real estate.

Table: 9 Types of Various Investments in Real Estate

Type of real estate investment owned	Frequency	Percent	Cumulative Percent
Residential House	84	40.0	40.0
Flats and apartments	18	8.6	48.6
Commercial property	2	1.0	49.5
House Plots	38	18.1	67.6
Agricultural Land	24	11.4	79.0
Residential House and Apartments	24	11.4	90.5
Residential House and House plots	18	8.6	99.0
Flats and apartments and House plots	2	1.0	100.0
Total	210	100.0	
Missing System	290		
Grand Total	500		

From the above figure, it is evident that majority of people (40 percent) own residential houses as their primary real estate investment. 18.1 percent of people own house plots. 11.4 percentages of the respondents have both agricultural land and house plots. 8.6 percent are having both residential houses and house plots. A few respondents; that is only 1 percent own flats/apartments, commercial property and house plots.

Table: 10 Possession of gold assets

Response	Frequency	Percent
No	180	36.0
Yes	320	64.0
Total	500	100.0

Table: 11 Types of Various Investments in Gold

Type investment in gold	Frequency	Valid Percent
Gold Coin and bars	40	12.5
Gold Jewellery	234	73.1
Gold E T F	10	3.1
Gold Coins, bars and Jewellery	36	11.3
Total	320	100.0
Missing System	180	
Grand Total	500	



Table: 12 Reasons for investment in gold

Reason for investment in Gold	Frequency	Percent	Cumulative Percent
Savings	106	33.1	33.1
Better return	70	21.9	55.0
Liquidity	42	13.1	68.1
Safety	22	6.9	75.0
Stability of Price	2	.6	75.6
Convenience	12	3.8	79.4
Others	2	.6	80.0
Savings and Better returns	18	5.6	85.6
Savings and Liquidity	14	4.4	90.0
Liquidity and safety	32	10.0	100.0
Total	320	100.0	
Missing	180		
Grand Total	500		

People of Ernakulam district prefer gold investment due to varied reasons. Majority of the respondents; that is, 33.1 percent of them consider it as a source of saving. 21.9 percent invest for better returns and 13.1 percent find value in the liquidity aspect. 6.9 percent of the respondents find the safety in gold investment.

Table: 13 Reasons to keep away from investment in gold and real estate

Reasons for no investment in gold and real estate	Frequency	Percent	Cumulative Percent
Lack of surplus fund	112	62.2	62.2
Lack of awareness about -investment options	20	11.1	73.3
Risk involved in investing	40	22.2	95.6
Unfavorable political and -economic situation	8	4.4	100.0
Total	180	100.0	
Missing System	320		
Grand Total	500		

People differ from investment because of varied reasons. Out of the 180 respondents, 62.2 percent say that the major reason behind the lack of exposure to gold and real estate are the shortage of fund. Another 22.2 percent people refrain from investment because of the risk involved in it. Lack of awareness about investment options also affects investment. Only a 4.4 percent of them avoid gold and real estate investment due to unfavorable political and economic situations.

Table: 14 Sources of information for better investment decisions

Source of Information	Frequency	Percent	Cumulative Percent
Family and friends	232	46.4	46.4
Govt. reports	22	4.4	50.8
Own knowledge	68	13.6	64.4
Market trends	84	16.8	81.2
Media and Advertisement	36	7.2	88.4
Investment advisors	36	7.2	95.6
Others	22	4.4	100.0
Total	500	100.0	

In every society or in a family, friends and relatives often play an important role as a main source of information. This is true even with investment decisions and is evident from the above table. Market trends also play a significant role in making decisions regarding investment in gold and real estate. Other sources like media and advertisements, investment advisors and government reports are also provide influential information.



Table: 15 Factors Influencing Investment Decisions

Factors	Frequency	Percent	Cumulative Percent
Income	284	56.8	56.8
Price	44	8.8	65.6
Monetary and Fiscal Policies	22	4.4	70.0
Friends	12	2.4	72.4
Media	4	0.8	73.2
Investment advisors	2	0.4	73.6
Social recognition	2	0.4	74.0
Others	20	4.0	78.0
Income and Price	80	16.0	94.0
Income and Media	20	4.0	98.0
Price and Friends	10	2.0	100.0
Total	500	100.0	

The data shows that a whopping 56.8 percent of the respondents say that their investment decisions are influenced by income. Price is the most influential factor for 8.8 percent of the respondents. For 16 percent of the respondents, both income and price influence their investment decisions. Friends, media, investment advisors, and factors like social recognition have also some influence on investors.

Table: 16 Percentage of assets in the form of Gold and Real Estate

Percentage of assets in gold and real estate	Frequency	Percent	Cumulative Percent
Below 10%	2	0.4	0.4
10 - 20%	124	24.8	25.2
20 - 30%	190	38.0	63.2
30 - 40%	48	9.6	72.8
40 - 50%	106	21.2	94.0
Above 50%	30	6.0	100.0
Total	500	100.0	

From the table it is clear that 38 percent of the households keep 20 to 30 percent of their assets in the form of gold or real estate. 24.8 percent of the respondents keep 10 to 20 percent of their assets in gold or real estate. It is interesting to note that approximately one fifth of the population have 40 to 50 percent of their assets in gold or real estate. Only 6 percent of the populations keep more than 50 percent of their total assets in these two assets.

Findings, suggestions and Discussion

It was found that people generally prefer gold and real estate for investment rather than avenues such as stocks and bonds. Many people have bank deposits which are less risky and assure a guaranteed return. Income and price are the major determinants of an investment decision of individuals. Most of the respondents prefer gold as their first choice of investment since the acquisition of real estate requires a much larger income when compared to gold. It has been observed that a large number of people are not aware of investment potential of gold and real estate. There are people who refrain from investment due to the shortage of sufficient funds.

Gender inequality in the investment habit is also noticed in the study. Approximately 85 percent of the total investors are males. Among various forms of gold assets, people's demand for jewellery and ornaments are much higher even though buying gold jewellery is considered as a 'pseudo investment' by financial experts. The main source of investment related information is family and friends. There are investors who watch market trend carefully and apply their own perception in investment decisions.

The study revealed that many individuals are parking their hard earned money in bank deposits which generates only a lower return. People need to be educated about the various investment options available that generate return above inflation rate and bank interest. Modern investment avenues like Exchange Traded Funds (ETFs) and Real Estate Investment Trusts (REITs) are to be promoted so that small scale investors can also start investment. Government can set up a legal advisory mechanism to deal with retail investment in assets like real estate so that more and more individuals will come up with investments.



Conclusion

The study on investment preference has given an understanding of the relevance of various investment options in assets like gold and real estate. It has given an insight into the scope and future prospects of growing investment opportunities for gold and real estate in Kerala, especially in Ernakulam district. The investment scenario in Kerala exhibits greater potential for further growth and this will have greater influence on domestic gold and real estate markets.

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