



A STUDY ON THE IMPACT OF DEMONETISATION IN REAL ESTATE WITH SPECIAL REFERENCE TO BENGALURU

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Abstract

"Real Estate is an imperishable asset, ever increasing in value. It is the most solid security that human ingenuity has devised. It is the basis of all security and the only indestructible security." Over the last 3 months since Prime Minister Narendra Modi announced demonetization, there has been a spate of differing opinions on how it is likely to impact real estate. The sudden ban on Rs 500 and Rs 1000 currency notes has resulted in a situation of limited or no cash in the market to be parked in real estate assets. This has subsequently translated into an abrupt fall in housing demand across all budget categories in the short term. We've had fear-mongering from some quarters, postulating that prices could tumble as much as 30% and wipe out as much as 8Lac crores of value out of the market. This study was conducted by the researcher to analyze the impact of demonetization in real estate sector. This study is based on both primary and secondary data. The researcher collected the primary data from 30 real estate companies in Bengaluru. Snow ball sampling technique used by the researcher for collecting the primary data. The collected data analyzed and interpreted by the researcher through various statistical tools. This study find out that the demonetization greatly affect the real estate in Bengaluru. 7.6 percentage fall in the market price due to demonetization, 10% drop in supply of new owner properties for sale, post demonetization and also between 5 to 10 percentages of buyers have shifted from "buying" to now "renting".

Introduction

Real estate is "property consisting of land and the buildings on it, along with its natural resources such as crops, minerals or water; immovable property of this nature; an interest vested in this (also) an item of real property, (more generally) buildings or housing in general".

Commercial real estate activity in India is heavily focused in the Tier 1 cities of Bangalore, Chennai, Delhi and Mumbai due to more mature local economies and better infrastructure. Software and IT services firms have been major drivers of office demand in the past decade and are now the largest occupiers of prime space. Although foreign occupiers have been a large part of the office leasing market, foreign developer/investor participation in the industry has been more limited. However, interest has risen with an expectation that reforms affirmative to the real estate industry.

Bureaucratic delays and a lack of transparency have long hampered the industry and held back investment. Nonetheless, a growing economy and rising wealth levels are necessitating the need for high quality buildings in all real estate sectors and management that meets international standards.

The use of unaccounted money in the real estate market in urban India has emerged as a major problem in recent years. While its dimension is not known accurately, the growing influence of black money in many transactions of real estate is commonly accepted. The process of economic reform and liberalization has not only opened opportunities for investment in various manufacturing and service activities by domestic and foreign investors, but it has also significantly increased the demand for land and property for the operation of these activities, residential and office premises, and thus increased the pressure on available scarce supplies of land and built up property. The fungibility of undetected money between the capital market and real estate has further fueled the scope for the greater use of black money and the push to land and property prices in the course of liberalization.

The Real Estate covers residential houses, commercial offices, trading spaces such as theatres, hotels and restaurants, retail outlets, industrial buildings, factories and also government buildings. Thus, the term real estate connotes immovable property which can be either land or building or both. Real Estate sector is a large, huge diversified sector, with many verticals such as land, design construction, development, investment, lending etc. India, emerging as one of the most important business locations in the world with its favorable demographics and strong economic growth, makes it an attractive place for property investors as the demand for property is determined mainly by business development and demographic trends. India is a large and diverse country with more than 1.2 billion people spread across a geographical area roughly one-third the size of the USA.

Review of Literature

In the field of real estate various research articles have been made. Amongst those, this section reviewed some of those articles. Ernst and Young, (2013); Indian real estate: the year gone by and outlook, that defined the transaction process of development in India in the real estate sector that has witnessed phenomenal growth in the last few decades. It explains about the various key aspects of the sector such as the SEZ's the governmental reforms and role for the sector to flourish.



KunalWadhvani, (2009); "Opportunities and Challenges of investing in Indian Real Estate This particular thesis identifies the opportunities in India that have caused global capital to flow into Indian real estate and the key factors driving Indian real estate. It explains the challenges of investing in Indian real estate and seeks to provide strategies for navigating the real estate landscape in India. They also present the suggestions and future prospects of real estate in the country.

According to CEO-residential services, JLL India, The demonetisation has already resulted in a major reduction of home loan rate interest rates, and they are expected to reduce further. Developers offering good deals and discounts are maintaining their position in a market which is now ideal for serious end-users.

The article entitled "Evaluation and Growth of Real Estate in India" by K. GowriHankarOutlines the beginnings of four real estate majors and goes on to elaborate on the steady march of the real estate sector in attaining the capability to deliver, with regard to a wide range of projects in various property segments. The author touches on the various aspects, such as, sustainability concerns being addressed by the sector, its move to the smaller cities, the maturity of real estate sector as reflected in projects being undertaken overseas, the current investment potential of the sector and the ways and means of funding in the real estate sector.

The Objectives of Study

1. To study the impact of demonetization on real estate sector with special reference to bengaluru
2. To Identify the price variance in the real estate sector before and after demonization

Hypothesis

H₀	There will be a no impact on demonetization in real estate sector
H_a	There will be an impact on demonetization in real estate sector

Statement of the Problem

The Real Estate sector in India is recognized as an "infrastructure service that is driving the economic growth engine of the country" according to industry experts. Real estate development in India has spread from the large metros to smaller cities and towns. Several factors such as sustained GDP growth, higher disposable incomes, proactive Government policies etc. have induced this transformation. The IT/ITS sectors accounts for 80 per cent of absorption of office space: this sector is seen as the driver foremost importance of current scenario. The rapid pace of urbanization in India is another factor that is contributing to the growth of real estate. The Government has aided the growth of real estate by allowing access to overseas equity while at the same time it has put in place checks and balances to control the sector and avoid any speculative bubble formation. Equity participation in the real estate sector has been encouraged to promote a long term development vision. The Government has also taken steps to regulate the liquidity in the real estate sector through debt. So real estate sector play a vital role in the development of our economy. In this study the researcher analyses the impact of demonetization in retail sector and how it was impact the performance of real estate sector and our economy

Importance of the Study

Real estate is one of the reliable and important investment types for individuals and institutions. Interest in the price appraisal of real estate has increased with rapid development of real estate sector and its legal infrastructure in recent years. The housing sector alone contributes 5-6 percentage on the total GDP. Any impact on real estate sector it will greatly affect the entire economy. After demonetization there will be a lot of changes happened in the real estate sector. This study is important to analyses impact of demonetization in real estate sector and how it will affect the entire economy.

Scope of the Study

The scope of the study is limited to real estate companies in Bangalore. This study only covers the impact of demonetization and the performance in real estate companies in bengaluru. With the demonetization policy, the real estate sector faces a lot of challenges and opportunities. This study help to analyses the real impact of demonetization in real estate.

Methodology

The study is mainly based on both primary and secondary data. The primary data collected by the researchers from 30 real estate companies through structured questionnaire and secondary data collected from various websites, journals, and articles etc. The researcher used snow ball sampling technique for collecting the data. Factor analysis, Regression analysis are the tools used by the researcher to analyses and interpret the data.



Analysis and Interpretation

For analyses the impact of demonetization in real estate sector the researchers don the factor analysis for extracting the variables.

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.641
Bartlett's Test of Sphericity	Approx. Chi-Square	139.858
	df	78
	Sig.	.000

Here $KMO=0.641 > 0.6$ and Bartlett's Test of Sphericity reject the null hypothesis that the variables are not correlated significantly. Hence, it is appropriate to carry out factor analysis. The communality values of all the factors are more than .4 which means all the factors are significantly contributes to the data. The extracted factors are Price oriented, Legal norms, other options, measures. Extracted factors are find out on the basis of Eigen value and total variance explained. Total variance explained = 67.900 (>60) and Eigen values of that factors are morethan one.

Dependent variable	Impact of demonization on real estates
Independent Variable	Price oriented& Supply of money, Legal norms, options, measures
Walden test	53.25%
Hit ratio	78.07
R ² Value	65.25
Significant value	.01

		Rotated Component Matrix			
		Component			
		1	2	3	4
Price Oriented and supply of money	Good market value for the product	.863			
	Price of the site decreed drastically	.724			
	Customer Attitude decreased in real estate's investment	.723			
	business in poor condition	.836			
	Demand for flat is decreased	.582			
Legal Norms	Cost is increased lot		.834		
	Tax burden increased lot		.723		
	Registration rate is increased		.879		
Options	Leasing property is increased			.897	
	Taking property on rent			.785	
Measure	measures to undertaken to overcome				.763
	Market value is declined				.847
	Discount is provided to the customer to attract them				.534

After extracting the factor variable the researcher done the regression analysis to find out the impact of demonetization in real estate sector.

The below table show that all the variables seem to be significant by Wald's test for significant of variable. The model validity given by the Hit-Ratio = 78.07. The hit ratio accuracy of prediction 78.07 (>75%) indicate that the model would predict with an average accuracy of 78.07% which is highly acceptable. Further, it is to be noted that the r² value is also high (.652>0.6) for the model and also significant level is 0.01. So the researchers reject the null hypothesis and accept the alternative hypothesis



H ₀	There will be a no impact on demonetization in real estate sector	Rejected
H _a	There will be an impact on demonetization in real estate sector	Accepted

To analyses the price variance in real estate sector the researcher used F-Test.

	Before Demonitization	After Demonitization
Locality	Avg Price	Avg Price
K.R Puram	7155	6675
Marathahalli	9685	8436
Koramangala	14278	12443
Yelahanga	9791	9123
Jalahalli	7792	6645

The above table shows the average market value of real estate in the various places in Bengaluru. After considering the price of real estate before and after the demonetization the researcher used F-test to analyses the variance. F-Test = 7.6% which indicate 7.6% fall in the market value of real estate.

Conclusion

Demonetization revolutionary measure which boomed some sector and declined some sector in this way the demonetization has impacted the real estate sector. . This study find out that the demonetization greatly affect the real estate in Bengaluru. 7.6 percentage fall in the market price due to demonetization, 10% drop in supply of new owner properties for sale, post demonetization and also between 5 to 10 percentages of buyers have shifted from “buying” to now “renting”. Real estate sector contribute 5 to 10 percentage to the national GDP. So the development of real estate sector is highly important for the growth of the country.