



Real Estate Sector- Critical issues

KEYWORDS

Governance, Social Housing, Capacity Building.

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ABSTRACT *Real estate sector is one of the pillars on which an economy is based. The real estate sector growth is linked to developments in retail, hospitality, commercial, housing and SEZs. Indian Real estate sector is transforming into a dynamic and organized sector. Govt. policies have been instrumental in providing required support after recognizing the need for infrastructural development in order to ensure sustainable development of the citizens of India. But still there is a lot to be done in this sector. The present paper is based on secondary sources of information and aims at recognizing certain lines on which the sector can be based so as to bring desired results. .*

Introduction

Real estate sector gained prominence with the liberalization of Indian economy. Real estate sector is the second largest employer in the country after agriculture. This sector is growing at a rate of 30% per year. The growth and appreciation in this sector directly influences the economy of the country.

The Indian real estate sector is one of the most important revenue generating sectors. Growing economy, rising income level, increasing urbanization and younger and small families are the main drivers of the sector. Several global firms have ventured in the sector over the last decade. These firms have introduced technical capabilities, improved efficiencies, enhanced qualities and have provided funds for real estate development. But still there is a gap between the demand and supply, opening a big opportunity for the global participants. But there are certain obstacles which hamper the pace of growth of the sector such as highly unorganized sector, lack of transparency, malpractices and poor data management.

As the growth and development in real estate sector directly influences the economy, the sector should be so defined, designed and facilitated that it can promote stability and sustainability and thus to minimize the chances and effects of any crisis in the sector or the economy. For this the real estate sector framework should be good governance based, transparent, efficient, fair and accountable. There are certain principles which can be followed to make the real estate sector more promising such as:

Land Register:

To reduce real estate transaction risk, there should be an efficient registration and updating system of real property data based on modern land registry. This will help in identification and protection of property rights. Such land registry should cover the entire country. The information should be open for public access at a reasonable fee but personal data protection is to be adhered to. Preferably, the system should be made digital and the public should have electronic access to Govt.'s planning and environmental policies. Moreover mortgage creation and registration should be so effected that it can be consulted electronically.

Harmonized and efficient sector:

In order to serve the purpose of boosting economic development, the real estate sector should be harmonized with the legislations, international standards, ethical norms and best practices. Data and information on market trends should be available, accessible in objective, reliable, accurate, transparent form so as to ensure good quality professional service culture to satisfy customer expectations economic potentialities.

Methods and practices should be so designed and technologically innovative to improve the quality of projects i.e. construction of residential, commercial spaces and other transactions.

Developing Real estate market:

As the real estate sector is the driving force for the development of both an emerging economy and developed economy, development of real estate market can really help in reducing poverty and migration flows towards countries providing better quality life and employment opportunities. To ensure transparent development and administration, town planning and building laws should be developed at national level and thus to avoid local laws that are often diverse and contradictory. These laws should be social housing oriented. Real estate sector should be strengthened through efficient administration, operation and maintenance of buildings and lands. Acknowledging that high management costs largely reduce market opportunities, costs should be reduced by promoting energy efficiency and investments in renewable energy sources.

Good governance:

To develop real estate market, Govt. should create sound climate for investments, financial and real estate business by enabling clear, transparent rules based policy formulation. Constant efforts should be made to ensure the financial stability in real estate market. No or at least restrictions should be there on real estate markets, real estate related services and products. Unnecessary delays in administration processes should be avoided through e governance. Real estate transaction costs should be reduced and legal constraints on private contracts as regards interests in land, should be minimized. Urban re-development procedures and land consolidation should be promoted.

Finance:

To develop and promote a sound real estate market, access to finance and mortgages as well as microfinance for low income earners are essential. As the real estate forms collateral on which loans and mortgages are allocated, credit policies have a great bearing on the sector. Competitive mortgage rates with easier repayment installments are increasingly important for both young couples and first home family buyers. The govt. should incentivize the young couples to buy homes directly or indirectly. Private investment in real estate should be encouraged and average return on investments in real estate and other investments in industrial and financial sector should be comparable. There should be no restrictions on regulated financial intermediaries allowed to engage in real estate financing.

Transparency and advanced financial products:

The lack of transparency in the assessment of value and the risk of real estate assets is one of the critical factors which can lead to crisis. For that it is necessary to have compatible and transparent regulations in global financial markets governing not only financial institutions and their financial products but also the property backed warranties. Value and risk valuation should be conducted independently to have a clear and direct connection with the value and the risk of the real estate asset under warranty. Real estate underwriting should be based on adequate, transparent, known and well monitored criteria. Loan to value ratio should be considered a basic and prudential criteria for providing finance to a private borrower.

Valuation Standards:

A reliable real estate appraisal is essential for buying and selling transactions, access to loans. Moreover real estate rating system may reduce sector investment risk and improve lower interest rate loans. Property valuation for mortgage or loan purposes and tax purposes should be based on transparent criteria as per international standards. All laws and procedures relating to property rights and transactions should be well documented, indexed and widely available to the public.

Social housing:

Social housing is integral and complementary part of the real estate market and helps in economic growth, urban development, reduction in housing pressure and informal settlements. An innovative social housing policy helps to recover and reconvert crumbling or underused buildings and to stabilize housing production. It also facilitates urban

development and regeneration, implement ecologically sound standards in new construction, stabilize migration flows and altogether contribute to an integrated society. Social housing for those in need should be promoted and implemented as one of the obligation of the govt. Social housing should not target only the weaker sections because this will immediately creates social exclusion and segregation of urban spaces, instead social housing should be made competitive with private markets to reduce and stabilize price development.

Professional services and capacity building:

Real estate supply chain should be made more efficient by investing in training, qualification, upgrading and continuous professional skill development. Adequate training is essential to cater to the needs of efficient, managed, innovative construction processes and products.

Legal framework:

In order to promote real estate market, an integrated national legal system should be established and harmonized with regional and international regulations and technical reference frameworks for the supervision and application of the regulation. It can in form of civil code, land law, construction code etc. The investments of citizens in real estate should be protected by clear and efficient set of rules. Moreover a well trained and independent judiciary with a solid experience in real estate litigation should be available. For speedy credit recovery, laws on property guarantee should be based on clear, efficient and rapid legal proceedings.