



IMPLICATION OF DEMONETISATION ON REAL ESTATE WITH SPECIAL REFERENCE TO WEEDING OUT BLACK MONEY

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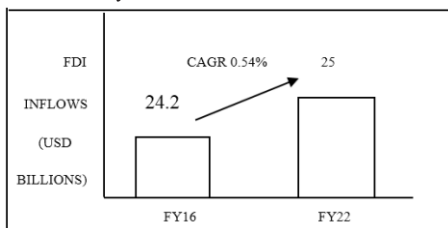
ABSTRACT This article deals with the problem of black money in real estate and impact of the recent demonetization on weeding it out. It is well known that a lot of black money is used in real estate especially residential real estate. The decision to demonetise has left such players in shock and has closed the doors of an important outlet of black money and has shown the determination on the part of government to deal with parallel economy.

Summary: For a government tax is a major source of income. When an income which should have been taxed is hid from taxation authorities this give rise to black money. Black money is generated from legal as well as illegal activities such money is then used in underground economy. Black money from illegal sources can come from activities such as kidnapping, terrorism, prostitution, bribery etc. and also aids such activities. So it was imperative for India to act on this parallel economy and government with demonetisation has shown its will to fight black money. Real estate which was once an important vehicle to place black money is no longer available. This will have deep implications for real estate which will now become more transparent.

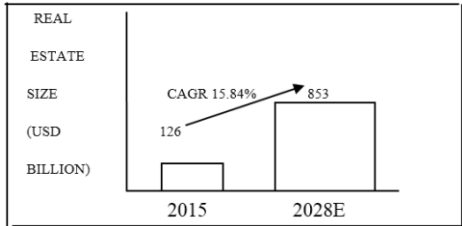
KEYWORDS : Demonetisation, White paper on black money, Parallel economy, Digitalisation

Introduction

As per real estate report October 2016 by India brand equity foundation, Indian real estate is the fourth largest in terms of FDI inflows with an expectation to grow to 25 USD by FY 22. Its size is expected to increase by 7 times till 2028.



Residential real estate contributes almost 80 % of the real estate sector. For FY 2015 estimated housing shortage for urban areas was 18.78 million houses. Increasing industrial activity, improving income level and urbanisation has resulted in increasing share of GDP in real estate.



Rapid urbanisation, growth in population, rise in the number of nuclear families, easy availability of finance, repatriations of NRI and HNIs and rise in disposable income will cause demand for residential space to grow sharply. Real estate has always been the vehicle used to park black money. However central government has introduced various reforms to improve the transparency of real estate. Recent demonetisation drive will have huge impact on demonetisation.

Objectives

1. Discussing the use of black money in real estate
2. Explaining implication of demonetisation on real estate.
3. Conclusion

Research methodology

This article is descriptive and based on secondary data collected various sources such as websites and research papers.

Black money use in real estate transactions

Black money is the income that is not declared to tax authorities therefore an income whether generated from legitimate business or through crime and bribery will be called black money if the income is not taxed appropriately. On may 2012 published white paper on black money accepted the fact that certain sectors are more vulnerable to black money which consist of real estate , jewellery , NPO, external

trade etc.

In real estate a buyer can easily make use of his black money. Let us take an example to understand how this can be done. Suppose the actual market value of a flat is one crore. The buyer actually pays one crore but the sales deed show rupees eighty lacs. This will not only let buyer invest his black money but also black money will be generated in the hands of seller.

Various studies suggest that most of the black money in India is in the form of physical assets. As per aspect of black money in India (1985) the most vehicles for holding black money wealth is provided by undervalued real estate assets. Similarly according to the report named weeding out black money from real estate by Liases foras 30 to 40 % transaction in real estate involve black money. Researches such as India's parallel economy by national institute of public finance and policy (July 2014), An empirical study on the transfer of black money from India: 1948 to 2008 by economic and political weekly (April 2011) suggested that more than 30 % of India's real estate sector is funded by black money.

Modi government has made number of changes to reduce the capacity of real estate to absorb black money. Ambit capital report on economy: the unintended consequences of India's battle with black money bring into light the following things:

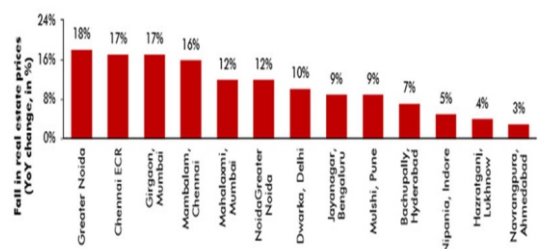
1. The new launches and absorption has come under pressure due to the measures taken by government.

New launches in the real estate sector have dropped significantly in CY15

Period	New property launches (in '000s)		
	NCR	Mumbai	Pune
Jan-Mar'12	24	41	22
Jan-Mar'13	27	31	16
Jan-Mar'14	20	22	13
Jan-Mar'15*	4	9	2

Source: Propriety, Ambit Capital research. Note NCR stands for National Capital Region. *Excludes March'15

2. The pace of price rise has slowed down in tier 1 and tier 2 states as shown in the figure:



Real estate reforms slowed down the absorption of black money into real estate and now with demonetisation, buyers with black money have received a shock.

Implication of demonetisation on real estate

Demonetisation move has affected a lot of industries but its effects on real estate are immediately visible. In real estate the secondary market will take a hit as most of the black money is involved in this market. There has always been a stringent demand to bring transparency in this market. Luxury and high priced homes will see a downfall in their prices. The investor who was thinking of investing in the projects or purchasing houses with their unaccounted money will be eliminated from the system.

1. Impact on overall market

Transparency will rise in the real estate market

2. Office market

Grade A variety of asset in commercial market will remain unaffected.

3. Retail market

In short term there will be a reduction in sale. In comparison to organised, it is the unorganised retailing segment that will feel the major impact. In future retailers will encourage digital payments.

4. Residential market

It is developers in small cities where the market is predominantly investor driven as compare to tier 1 market which is going to feel a negative impact. Artificial demand for land and property from investors parking their excess money will disappear. Luxury property prices will witness a fall in price. Secondary market will be affected. Interest rates will witness a cut.

Conclusion

Demonetisation by the BJP led government is going to have implications in both long and short term. Government has taken various steps to promote digital transactions such as launching of BHIM app, conducting digital literacy programmes and limiting cash transactions to 300000 rupees. All of this will help in increasing formalisation of payments which will have a direct negative impact on use of black money especially in real estate sector that is a major outlet for black money. Income tax department is analysing the high value transactions taken by people immediately after demonetisation to track any black money utilised in such transactions. Digitalisation is a positive step that will hamper the use of black money in real state.

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