



## A STUDY ON HOME BUYERS EXPECTATION IN COIMBATORE CITY

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**KEYWORDS :****Introduction**

Home buyers face challenges while deciding “when” to purchase houses. While favorable economic conditions lead to higher incomes for home buyers, it also leads to spiraling real estate prices making it difficult for a buyer to purchase homes even given their higher incomes. On the other hand, during economic downturns while real estate prices decline, people become skeptical about their incomes and adopt a more cautious approach to purchases. Affordable housing may be a good strategy to this home-buyers dilemma and can help ensure housing across different sections of society.

Affordable housing can be defined using three key parameters viz. income level, size of dwelling unit and affordability. While the first two parameters are independent of each other, the third parameter is correlated to income and property price, and hence can be termed a dependent parameter. While the above definition is a generic representation at an all India level, the actual definition of affordable housing may vary with regions and income levels. Another point to note is that the definition of affordable housing is not just restricted to the three categories mentioned above, but applies to people across the country.

Affordable and low-cost housing are often interchangeably used, but are quite different from each other. Low-cost housing is generally meant for EWS category and comprises bare minimum housing facilities while affordable housing is mostly meant for LIG and MIG and includes basic amenities like schools, hospitals and other community facilities and services.

While the real estate industry across developed countries went through one of its worst downturns, the Indian real estate industry, which was considered “shockproof”, was also badly hit. The tremors of the global liquidity crisis led to price corrections in the domestic real estate industry leaving developers with land parcels acquired at peak prices and with considerable stress on their balance sheets.

The Indian economy witnessed a gradual deceleration in its growth post March 2008 till March 2009 with a similar impact on the money supply (M3) growth. This led to some serious funding problems for real estate developers as traditional banking channels became more cautious in providing credit and consumer demand witnessed a slump due to the uncertain economic environment.

The real estate business in India underwent considerable changes post the global liquidity crisis. Prior to the crisis, developers bought land with part payment and launched projects; this meant regular cash flows from upfront payments was required to fund chain of projects. The developers continued with this practice and acquired huge land parcels by leveraging their balance sheets. With the liquidity crisis, availability of construction finance became a challenge and muted consumer demand meant very little upfront payments due to concerns on timely project completion, thereby affecting regular cash inflows for developers. All these factors resulted in developers resorting to alternative revenue generation strategies such as stake sale, sale of non-core assets and even freebie offers like cars, gold medallions etc. To improve the cash flows further many developers across India reduced property prices on an average by 20-30 percent.

**Availability of Land**

One of the biggest questions that India needs to answer going forward is with respect to adequate supply of land for housing purposes. The Government's vision of Affordable Housing for All will require

acquisition / supply of large land parcels on a regular basis. As per 2001 census, the country's urban land mass (2.4 per cent of total land mass) houses approximately 28 per cent of the country's population, excluding people who live on the streets. According to calculations made by the Town and Country Planning Organization (TCPO), to cater to the demand of EWS and LIG category alone would require 84, 724 to 120,882 hectares 4 of additional land. Land cost is another crucial factor affecting supply of land. Given limited availability of land in urban areas, it becomes unviable for developers to provide affordable housing without Government support. On the other hand, the Government holds substantial amount of urban land under ownership of port trusts, the Railways, the Ministry of Defence, and Acquired under the Urban Land (Ceiling and Regulation) Act, the Airports Authority of India and other government departments.

**Financial and Regulatory Support**

Financial and regulatory constraints have plagued the housing sector in India. Current financing mechanism prevalent in the country mostly targets MIG and HIG sections of the society while the households falling under LIG and EWS category find it difficult to secure formal housing finance. Commercial banks and traditional means of housing finance typically do not serve low-income groups, whose income may be vary with crop seasons, or is below the 'viable' threshold to ensure repayment, or who cannot provide collateral for loans. Microfinance institutions are considered to be the next best alternative to for financing the EWS and LIG category.

However, there are challenges faced by microfinance institutions which prevent them from extending housing loans. Challenges faced are primarily due to the longer period of housing loans (typically between five to seven years minimum, if not more) and due to the larger amount of loan compared to typical loans extended by MFIs. Typically, a house, particularly in the urban areas, will be about INR 1 lakh, whereas when microfinance institutions give for livelihood financing, they give INR 10,000 to maximum INR 60,000. If they have to lend to a significant numbers of people, the amount to be loaned goes into crores of rupees which can be a problem for microfinance institutions another problem with microfinance institutions is of refinancing. While National Housing Bank (NHB) provides refinancing facility, interest rates are not fixed but reviewed periodically.

**Industry Characteristics**

Indian real estate industry witnessed a historical boom during the period 2002-2012. Revenues, volume, profitability and prices of properties skyrocketed. Developers announced a chain of projects and expanded operations exponentially across the country. Foreign investment was virtually locked out of this sector. Government of India liberalizes direct foreign investment policy for real estate sector and billions of dollars were invested in projects across the country.

- Entry barriers are low and anyone having access to land can develop a project. Only real difference being the specific location of a project and the class of development.
- Brokers have a very strong say in the market and can influence the market greatly, hence marketing the project typically requires close coordination with the broker's community.
- Construction activities are funded in major part by the client who is required to make cash advances on various points of time during the courses of development and construction of a project.
- Generally commercial projects were yielding higher margins than residential projects. However, ROCE was higher in residential projects due to the fact in case of a well located project it was

possible to finance almost entire construction from client advances.

December 2012)

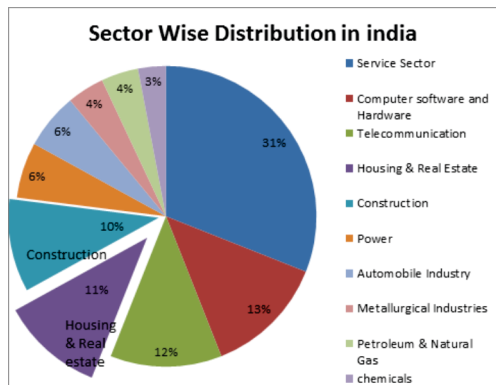
Peculiar nature of risks associated with the industry, economy risk, price risk, customer preference and some degree of credit risk is also associated with this industry.

**Real Estate Industry in India**

The term “real estate” is defined as land, including the air above it and the earth below it and any buildings or structures on it. Land plus anything permanently fixed to it, including buildings, sheds and other items attached to the structure. Although, media often refers to the “real estate market” from the perspective of residential living, real estate can be grouped into three broad categories based on its use: residential, commercial and industrial. Examples of real estate include undeveloped land, houses, condominiums, town homes, office buildings, retail store buildings and factories. At present, the real estate and construction sectors are playing a crucial role in the overall development of India’s core infrastructure. Real Estate in India is one of the most important revenue generating sectors. In every assets are having depreciation value. Investment in property is believed to be the smartest move as chances of loss is negligible. The growth and appreciation in this sector is directly influences the economy of the country. Incase in India if a person having an own property is a matter of pride, attachment to the property is massive. Also, it is the most profitable investment in India. The growth graph of the Real Estate sector is observed to be rising day by day.

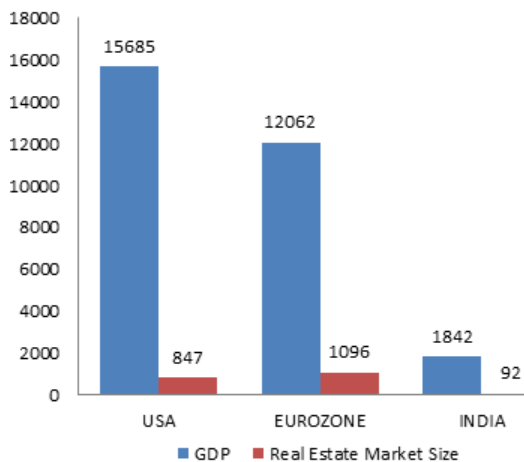
The real estate industry's growth is linked to developments in the retail, hospitality and entertainment (hotels, resorts, cinema theatres) industries, economic services (hospitals, schools) and information technology (IT)-enabled services (like call centers) etc and vice versa. The Indian real estate sector has traditionally been dominated by a number of small regional players with relatively low levels of expertise and/or financial resources.

**Sector Wise Distribution Industries in India**



**The GDP and Real Estate Contribution**

GDP and Real Estate Contribution



Source: Trading Economics, Organization for Economic Cooperation and Development (OECD), India Brand Equity Foundation (IBEF)

**Market Structure of Construction Industry**

The Construction industry is highly fragmented, as the entry barriers are low due to less fixed capital requirements. Reportedly, in 2004, over 3 million construction entities (including housing contractors) existed, of which only around 28,000 were registered. However, there is more fragmentation in the housing segment than the industrial/infrastructure segment, as the unorganised sector accounts for 75per cent of the same. Furthermore, the industrial/infrastructure sector requires far more technical expertise. Around 96 per cent of construction companies are classified as small and medium enterprises.

Several government initiatives have been driving growth in the real estate sector including liberalisation of FDI norms during 2005, implementation of the SEZ Act and permission for PE funds to enter the real estate space. It is also supported by a booming economy, favourable demographics, improving life style, and evolving sources of finance, among others.

**Major Players**

Post independence, in the First Five Year Plan, construction of civil works was allotted nearly 50 per cent of the total capital outlay. The first professional consultancy company, National Industrial Development Corporation (NIDC), was set up in the public sector in 1954. Subsequently, many architectural, design engineering and construction companies were set up in the public sector (Indian Railways Construction Limited (IRCON), National Buildings Construction Corporation (NBCC), Rail India Transportation and Engineering Services (RITES), Engineers India Limited (EIL), etc.) and private sector (M N Dastur and Co., Hindustan Construction Company (HCC) etc.). The Indian Construction industry comprises of about 200 firms in the corporate sector. In addition to these firms, there are about 1,20,000 class-A contractors registered with various government construction bodies. There are thousands of small contractors, which compete for small jobs or work as sub-contractors of prime or other contractors.

**CONCLUSION:**

The Indian real estate sector has traditionally been dominated by a number of small regional players with relatively low levels of expertise and financial resources. Residential apartment purchase is a complex decision-making process which requires a buyer to pass through a number of steps. It starts with the requirement to identify product profiles, and then a search for information on the related profiles in specific terms. It helps to the buyers to purchase particular flats in right manner from the promoters and it gives more effect in decision of buyers. The customer expectation and perception are important aspects in each and every industry including real estate industry. The house property is the basic requirement and dream of every human being in the society.