

Effect of Demonetization on Real Estate Sector & Construction Management

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Abstract— In the financial year of 2016-17's third quarter INDIA'S Prime Minister Mr. Narendra Modi has banned INR rs.500, rs.1000 notes on 8th Nov. 2016. Which has the intentions of cleaning the system up removing black money and corruption out. The various effect of this demonetization over construction industry are been discussed in this entire research i.e. over the different segments of real estate sector and construction management. The residential real estate, the commercial real estate, investment market, retailers, land sales and leasing, sales and pricing details, about the cash transactions, home loan interests, stock market, purchase rates, change in speed of construction work, current scenario of real estate sector etc. defines the outcome of the demonetization, either it's positive towards the intentions or may not be much effective enough, different aspects and studies from government's and developer's point of views have been researched.

I. INTRODUCTION

As the demonetization took place in November 2016, it has the planned structure of cleaning up the black money out of the country, aiming futuristically addressed to be within 5 years from now. This is the step taken for long term sustainable growth adding up to the development of our country, where construction industry takes the economy at another level, it also affected construction and real estate sector's different segments, which all together gives us an idea about how this step is worthy for country. The research entails about the positivity and negativity of the demonetization over the construction industry, which then analysed and gives a final result of the same. The process definitely has short term complications for long term growth also termed as 'Bittersweet Demonetization'.

II. IMPACT OVER REAL ESTATE AND CONSTRUCTION MANAGEMENT

Pre demonetization the industry could have faced losses upto rs.1 billion this year, but some factors of demonetization cut that down and alleviated the issues, as the demand increased surprisingly. The growth rate of this sector according to the economist's prediction was getting slower than ever. It is definitely affected by demonetization but the transparency that took place post demonetization is delight for sure. The businesses which were going on with integrity will survive the best now. More brief about the same is been discussed below.

1. Residential Real Estate

The primary sales segment doesn't get much affected as it has the transparency in deals. Only the areas which has involvement of cash component would be in trouble due to demonetization. The secondary resale market can face the same due to cash involvement somehow.

2. Commercial Real Estate

This segment too do not play cash component role significantly as a result there will be a minimum impact on industrial leasing and transaction business.

3. Investment Market

The project may get stretched as there will be only formal and transparent sources of capital available that is FDI, private equity, and debt players will suddenly find the market. Banks could start funding land transactions, decelerating land prices.

4. Retails

Some impact can be seen on the retailers business in short to medium term due to reduced cash transactions. Due to black money acceptance in the luxury segment it may get largely affected by demonetization. The domestic consumption side remains unaffected.

5. Land Sales and Leasing

The joint ventures and joint developments involved in land transaction divestments are much safer as they are institutionalized. However those carrying out direct land deals will doubtlessly suffer maybe the agricultural land transaction which involves significant cash involvement.

6. Developers

Minimal impact over the developers, as they too are institutionalized with solid brand and governance framework. The smaller developers are more concerned as they are more dependent on cash transactions.

7. Hotels and Hospitals

This is the organized sector which do not face any impact over it.

III. THE IMPORTANT FACTORS OF DEMONETIZATION DUE TO WHICH ALL OF THE ABOVE SECTORS ARE AFFECTED

1. Discarding Unsecured Cash Transaction

Benami property act, which removes unregulated properties, was launched the same time as of demonetization. Also the unrecorded value of properties was more than on the paper which is the source of creation of black money is been removed as the transparency occurred in the system of purchase and payment, which was creating problem for government to levy tax on them. Now it became easy for government to detect the fraud more easily because as a

solution cashless transaction took place which keeps the record of everything.

2. *Low Home Loan Interests*

The cash deposits were increased as a result of demonetization in banks, the banks then encouraged customers for deposits and suddenly found themselves in influx, now the next problem was to dispense the cash through various instruments. RBI to influence for higher home loans cuts the interest rate on home loans for dispensing out a huge cash out of the banks also attracted customers towards real estate investments, the demand for real estate increased this way benefited property dealers as their projects are resumed again. Many projects got started like smart cities, AMRUT, affordable housing for all by 2020 by government adding up in development of country too.

3. *Stock Market Performance Appraisal and FDI*

The Indian real estate sector always had high foreign investment from US, around \$5.7 billion in 2016. On the stock market BSE Bombay stock exchange, the real estate performance was improved by 50% during 2016-17, alienating the fears of diverse effects of demonetization. India is on the track to become the 4th largest economy in the world with a growth rate of 7.5% by the end of 2022.

4. *Constriction in Cash Causing Slow Purchase Rate and Slow Down in Construction Works*

The demonetized cash which was around 85% of the total money circulated in India at the time of demonetization was forced to be deposited in banks to be flushed out of the system also the number of transactions were restricted in cash during the period hence it slowed down the purchase of properties it fell down about 40% in major cities & new projects about 11% were failed to start, the demonetization however doesn't

affected over it much as the decision of purchase were optioned not discarded. The operational expenses like wages and raw material were difficult to be accessed, only cash was the option which was also not in use due to demonetization which led down the speed of construction works.

5. *Decrement in Rental Yield*

The fall in the prices of properties due to demonetization took the rental yields of major cities down falling although the effect lasted for only a few months.

Mumbai - 2.55% to 2.54%

Delhi – 3.20% to 2.47%

Bangalore – 4.04% to 3.80%

IV. OVERALL IMPACT ON THE REAL ESTATE AND CONSTRUCTION SECTOR

This bittersweet demonetization process off course affected many sectors and segments of this industry but only aiming for futuristic well fare. The short term pain in the mass was to give a great relief in future as already mentioned that it is a long term Sustainable growth process. The 5-6% GDP of country is contributed by real estate sector the process altogether went through it made the sector more productive and adding up to the GDP of country. However the affected sectors due to removal of black money are suffering a shattering loss which is in terms good for the country itself.

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