

## A STUDY ON REAL ESTATE INVESTMENT DECISION AND CHALLENGES FACED BY THE RETAIL INVESTORS WITH RESPECT TO MAHARASHTRA

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### ABSTRACT

*Real estate industry plays a significant role in high speed economic development of India. There is consistent increase in housing prices and scarcity of land resources. Retail investors do their investment for better prospects in future like wealth creation and economic growth. This research is based on a survey where customers from urban areas of Maharashtra gave their opinion on real estate investment. A structured questionnaire as an instrument of data collection was used. Results shows that investment decision in real estate by retail investors are influenced by many challenges like Land acquisition and registration, Price variation, growth in population, lack of clear legislation, Title deeds, Scarcity of land, property value, local land owners influence etc. Empirical findings inferred that there is a correlation between the challenges faced by the investors and economic growth of the nation.*

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**Keywords:** Investment Decision, Real Estate Sector, Property, Population, FDI, GDP, Urbanization, Economy.

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### Introduction

India's economy has proved as a strong economy as it even in turbulent times likes global recession, pandemic situations and economic slowdown it shows steady growth. Indian economy is backed by many industries like manufacturing, insurance service, agriculture and real estate. From the last ten years industry wise performance it has been observed that real estate industry has contributed significantly towards the nation's GDP and financial stability.

There was a slowdown in real estate industry during demonetization and pandemic period. At the same time one can see the great bounce back after Covid pandemic and it is emerged as a promising sector considering its contribution towards nation's economic development. From last two decades India is observing rapid urbanization and that is one of the major reasons for the progress of real estate sector. It is expected that by the year 2025 around 543 million people will be the population of urban India (IBEF Report, 2019). Increase in demand for residential properties can be observed due to rapid urbanization. Now real estate has become the preferred investment option for long term investment. As well as government has allowed 100% FDI in this sector. Pradhan mantra awas yojana become the booster for this sector.

Today customers are more inclined towards the studied investment options. They are having the investment options like investors have many alternatives to invest. Investors can choose the any investment avenue like gold, equity, insurance, bonds, mutual funds and real estate. Every investment is done with different objectives and it depends on return on investment, liquidity, safety etc. Considering the risk and liquidity of all other options, real estate investment has a moderate level of risk in investment.

Looking towards all these parameters, real estate investment has moderate risk and very less liquidity. Real estate investment is safety instrument and could be look as long term investment option. It requires large capital and patience to hold the property for better returns. Looking towards all these

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benefits and positive things of this sector still investors are facing many issues and challenges while investing in real estate property. This research paper is an attempt to understand the obstacles and challenges facing by retail investors in real estate investment.

### Objectives

Current research is aim to identify the various obstacles and challenges faced by retail investor in India while investing in real estate market. Following are the research Objectives.

- To Determine the various challenges/Problems facing by retail investors during investing in real estate property.
- To understand the opinion of the retail investors towards investment decision in real estate market.
- To correlate the relationship between challenges in real estate investment and economic development.

### Literature Review

**IBEF Report (2019):** Due to rapid increase in the urban population and higer demand in real estate it is anticipated that by the year 2030 real estate sector in India will reach to US dollar 1 trillion. At the same time government of India is also taking enough efforts for the accomplishment of mission known as "Housing for all". Report also explored that still urban areas are facing the shortages of real estate properties around 10 million houses. Report highlighted the factors contributing for rise in demand of real estate properties that includes rise in employment, rapid urbanization, increase in nuclear families, rise in income of middle class families, growth in IT and service industries etc.

**Hoesli, M., & Lizieri, C. (2007):** Researcher explored that real estate is one of the important avenue in retail investors portfolio. Current research focuses on role of this sector in a multi-asset portfolio. Research highlighted the concern on the need of securitization of the investment decision. Data analysis inferred that real estate investment is desirable asset class.

**Wang, P. (2003):** Current research paper is focusing on the real estate investment challenges by the retail investors. It was observed that real estate investors do the investment for the wealth creation and appreciation in the financial asset. Researcher has taken various variables to conduct the research. These variables include government policies, economic condition, inflation etc. It was observed that major challenges faced by the investors are interest rates, unavailability of stringent legislation, rising population etc. Other challenges were also focussed in to the research paper like false promises by the builder, poor construction, no adequate facilities etc.

**Kunal Wadhvani (2009):** It was a research thesis that was focusing on the various opportunities as well as teething troubles in the real estate industry in India. According to the author there are two types of influencers in real estate sector namely global and country level. Global drivers include global economies, higher returns and country level influencers include inflation, employability, living standards, risk etc. Author classified different product of real estate industry i.e. residential properties, commercial shops, offices, industry complexes, institutions and hotel properties. Researcher mentioned that in India major challenges are government approvals and utility connections.

**Nishith Desai (2008)** India's economic development is determined by different industries and one of the important contributing industry if real estate industry. There are many factors contributing real estate rise. Those are investors conservative nature of investment, healthy economical andpolitical condition for real estate market and industrial growth etc.

### Hypothesis

Following hypotheses were developed.

**H<sub>0</sub>:** "There is no association between economic growth and real estate investor's challenges"

**H<sub>1</sub>:** "Challenges faced by retail investors in real estate are positively associated with economic growth"

### Research Design

Research design of the current research is descriptive in nature. Population of the current research paper are the retail real estate investors residing in Maharashtra. There were 430 respondents as a sample participated in the research survey. Area sampling technique was used for sample selection. Total number of samples were 430 respondents from various places of Maharashtra. Both the type of data i.e. primary as well as secondary data was used for the research. Primary data was collected from

survey questionnaire and secondary data was collected from various research papers, blogs and reports etc. Data analysis was done by using Microsoft excel and SPSS for hypothesis testing by using correlation and chi-square test.

### Data Analysis

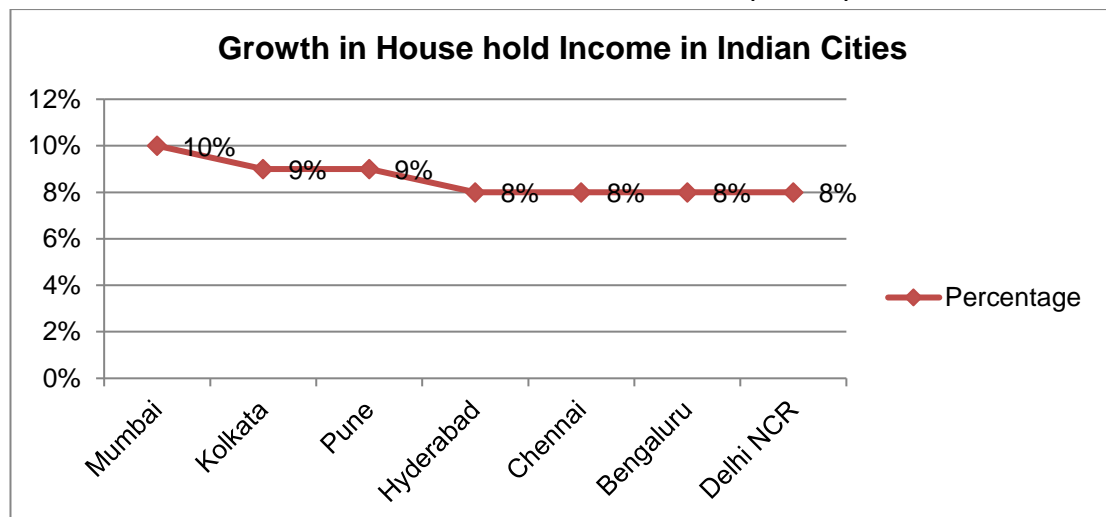
Challenges in Real Estate Investment	Mean Value
1) Problems of Land Acquisition and Registration	4.24
2) Price Variation	4.34
3) Rise in Population	4.42
4) Govt. Schemes and Policies	3.7
5) Higher Rental value	4.29
6) Lack of clear legislation	3.31
7) Bureaucracy in registering title deeds	3.85
8) Scarcity of Land/Property	3.91
9) Property Value	4.41
10) Local land owners influence	4.18
11) Availability of amenities	4.34
12) Ease in finance	3.65
13) Resale Value	4.49
14) Returns on investment	4.78
15) Liquidity	3.19
16) Risk	3.25

### Interpretation

From the above table respondents opinion on various challenges faced by the real estate investors were identified. Five liker scale of agreement was used where 5 represented as fully agree and 1 as fully disagree. Mean values were calculated as mentioned in the table.

From the Mean value of the various challenges it was observed that major challenges are for Land acquisition and Registration (4.24), Price Variation (4.34), Rise in Population (4.42), Higher rental values (4.29), Higher rental value (4.29), Rising property value(4.41), Local land owner influence (4.18), Availability of amenities (4.34), resale value (4.49) etc.

### Economic Growth: Growth in House hold income in Indian Cities (2011-18)

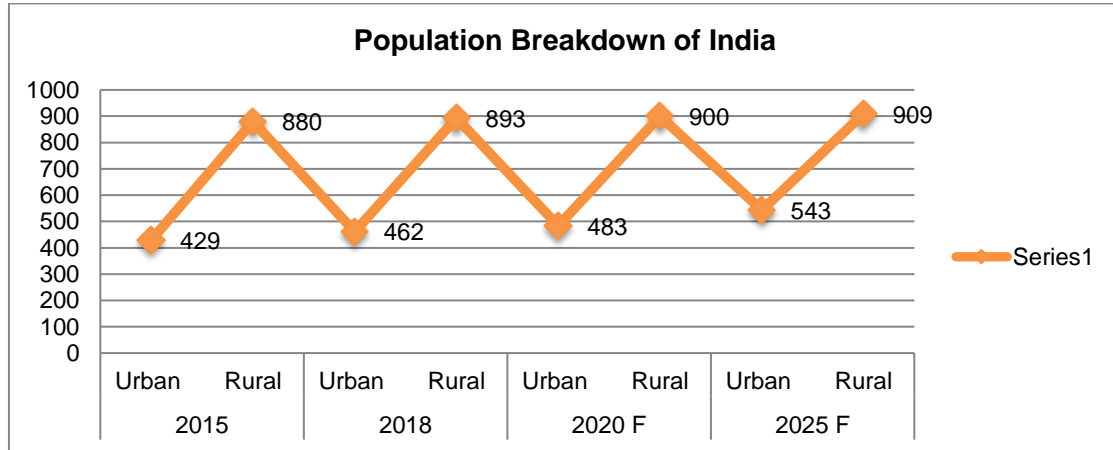


Source: Secondary Data (IBEF Report on real estate 2019)

### Interpretation

Graph reflecting consisting growth in household income of the Indian's as well as nation's economy. Some of the cities in India like Mumbai, Kolkata, Pune, Hyderabad, Chennai, Bangalore and Delhi are found significant increase in household income.

**Population Breakdown of India (In Million)**



Source: Secondary Data (IBEF Report on real estate 2019)

**Interpretation**

Above chart shows the existing and forecasted population growth and breakdown in rural and urban areas. In both the area's population growth can be observed and comparatively in Urban areas it has been observed more with 543 million (Forecasted) in year 2025. Accordingly demand of real estate will be more and hence indirectly it will boost the sector as well as nations economy.

**Hypothesis Testing**

**H<sub>0</sub>:** "There is no association between economic growth and real estate investor's challenges"

**H<sub>1</sub>:** "Challenges faced by retail investors in real estate are positively associated with economic growth"

**Test: Pearson Correlation**

Correlation between Challenges and Economic Growth		Challenges	Economic Growth
Challenges faced by real estate investor	Pearson Correlation	1	0.351
	Sign (2 tailed)		0.001
Economic Growth	Pearson Correlation	0.351	1
	Sign (2 tailed)	0.001	

Correlation statistics showing significant association between challenges faced by the real estate investors and economic growth. From the statistics it has been observed that p-value for both the correlation was less than 0.005. Hence it rejects the null hypothesis and accepts the alternative hypothesis.

**Findings & Suggestion**

- Research found that real estate investors faces the challenges like land acquisition, quality built work, market situations and its impact on pricing, problems of title deeds, exponential growth of urban population etc.
- It is also observed that unavailability of clear legislation, Scarcity of land, increasing property value and influence of local people etc.
- Government policies are not stringent and different way out are possible to make in it hence there is a requirement to revise the guidelines and impose strict regulations on builder lobby.
- From the interaction of the respondents it was observed that promised amenities are not provided hence unavailability appropriate availability of amenities is one of the challenges.
- Result found that ease in finance was not a challenge at all as responses were in favour of these factors.
- Annual income of the people in cities was observed increase with on an average 10% in last one decade.
- Rise in urban population resulted increase in demand of real estate properties.

- Hypothesis tested that real estate investment decisions are correlated with the challenges they faced during buying process.
- Availability of ample finance opportunities has a significant impact on increase in demand of real estate properties.

### Conclusion

Study observed from the respondents opinion that real estate investment is a moderate or low risk investment because of less liquidity and better results in long run. Simultaneously one cannot expect the good return in short span and it require huge capital for investment. Hence customers take more time before they invest as well as certain challenges faced by the investors like land acquisition, price variation, growth in population, lack of clear legislation, Title deeds, Scarcity of land, property value, local land owners influence etc. makes purchase decision lengthier. Study found that availability of finance is not a problem of customers as it is easily available. But research study recommended that government should revise laws, policies and regulations by making necessary changes. Research study concludes that urban market has a good potential and changes in the policy makers and marketers policies will reduce the challenges of real estate investors.

### Limitation

- Current research is confined to only opinion of customers of Maharashtra India.
- Current research is comprehensive research study that considers all the segment of real-estate investment. Further studies can be conducted on specific investment avenues like land, flats or commercial properties.
- Research was dealt with the opinion of the respondents staying in urban area therefore it cannot be generalise for rural area customers.

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