

## **Inefficiency of Indian Real Estate indicators: A Need for Regulatory Agency & Index based on market deal**

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### **Abstract**

The real estate sector is a major employment driver in India and it contributes a significant level to the GDP. Besides, it is the main source of wealth for all section of the people. There is no transparency and efficiency in the pricing of real estate transaction in-spite-of some indices representing the price movement of the real estate sector. This is because the price is based only on the primary market transaction. It's completely excluding the secondary market transaction of the sector. This paper attempts to address this issue by proposing an online exchange for real estate transaction, for bringing in more liquidity and transparency to the sector, along with an index, based on the price traded in that exchange. These will a high relative measure to indicate and represent the price moment of the sector. This kind of regular monitoring of the real estate prices may be fruitful input for the different stake holders like buyers, seller, mediators, developers, investors, banks, housing finance companies, FIIs, private equities, analysts and others in their decision-making process.

**Key words:** Real Estate Index, RESIDEX, RESSEX and Real Estate Online Exchange

### **I. INTRODUCTION: Need for an Index**

The real estate sector is a major employment driver, because of the chain of forward and backward linkages that the sector has with the other sectors of the economy, especially with the housing and commercial construction sector. About 250 ancillary industries such as cement, steel, brick, timber, building materials etc are dependent on the real estate industry, and more over the Reality business contributes a significant level to our National GDP. These factors endorse the need, initially, for residential property price index for select cities and subsequently an all India composite index by suitably combining these city level

### **II. PRESENT INDICES**

In India, there are two major real estate indicators namely, RESIDEX and RESSEX which are calculated based of different methodologies and reflect the

#### **a. RESIDEX**

On the request of ministry of finance, the National Housing Bank conducted a pilot study to construct the

indices, to capture the relative chronological change in the real estate prices at different levels

To begin with, since housing and real estate are major areas in creation of physical and financial assets and contributing to overall National wealth, a mechanism is required track the movement of prices in the residential housing segment. Regular monitoring of the house prices can be useful inputs for the different interest groups like buyers, seller, mediators, developers, investors, banks, housing finance companies, FIIs, private equities, analysts and others in their decision-making process.

Indian real estate growths. A detailed review of these indices is presented herewith;

National Index for Real Estates Prices. The project initially was started to cover 5 cities viz. Bangalore, Bhopal, Delhi,

Kolkata and Mumbai. But in the year 2007 NHB RESIDEX has been expanded to cover ten more cities, viz, Ahmadabad, Faridabad, Chennai, Kochi, Hyderabad, Jaipur, Patna, Lucknow, Pune and Surat. At present NHB RESIDEX Covers 15 major cities of our nation. It is proposed to

### 1. Methodology of the index

The Technical Advisory Group (TAG) was constituted to deal with all the issues relating to methodology, collection of data and also to guide the process of construction of an appropriate index. The TAG comprises members from Ministry of Finance as chairman and a range of experts members from RBI, NSSO, CSO, Labour Bureau, NHB and other market players.

The Pilot study covered 5 cities viz. Delhi, Mumbai, Kolkata, Bangalore and Bhopal representing the various regions of the country. Basically, the actual transactions prices were considered for the study in order to arrive at an Index because,

### 2. Data Availability & Frequency of Updation

The year 2001 was taken as the base year for the study, in comparison with the WPI and CPI. Year to year price movement during the period 2001-2005 has been captured in the study, and subsequently updated for two more years i.e. up to 2007. Further, at the time of up-

### 3. Index Indication

As shown in the Chart No:1, the NHB RESIDEX overall national real estate price spiked more than 45% when compared to the 2007 real estate prices. The chart also indicates that the prices have a linear upward trend to increases in the near future. The chart #: 2, symbolize the price movement of the cities which the

### B. RESSEX

Mumbai based Realty research firm Liases Foras on 18<sup>th</sup> November 2009 launched its Real Estate Sensitivity Index – RESSEX, which will provide structured data and property analysis on the country's real estate market. It aims to provide instant and continuous information on property trends and analysis in India. The

### 1. Methodology of the index

cover 35 cities having million plus population. There is also a proposal to expand NHB RESIDEX to 63 cities, which are covered under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), to make it a true National Real Estate Index.

to fairly reflect the market trends. The index has been constructed using the weighted average methodology with Price Relative Method (Modified Laspeyre's approach), and the primary data on housing prices is being collected from real estate agents by commissioning the services of private consultancy/research organisations of national repute. In addition, data on housing prices is also being collected from the housing finance companies and bank, which is based on housing loans contracted by these institutions.

gradation and expansion of coverage of NHB RESIDEX to 10 more cities the base year has been shifted from 2001 to 2007 and the data are published on half yearly basis. The NHB RESIDEX is now being up dated on quarterly basis from December 2010 onwards.

NHB RESIDEX covers, It shows that out of 15 cities only the 4 city viz, Hyderabad, Jaipur, Kochi, Bengaluru showed the negative price trend and the remaining 11 cities recorded a positive price trend, among which Chennai secured the first place for the positive price trend followed by Kolkata, Bhopal.

concern offers five types of indices namely, Sale, Inventory, Price, Efficiency and Business Turnover indices in the terms of index and amount. RESSEX provides dynamic data for the first time ever, in the form of an index at regional (from city to micro location) and product (1 BHK, 2 BHK etc.,) level.

Real estate price data is mostly collected through primary survey (i.e. covers 90 % of universe) by the way of Mystery Shopping techniques by the way of personal visits to the sites and it is not a mere telephonic or internet search. The data covers only primary marketable supply. It means that it represents the supply of the project by the builder/developer. But it includes only those, wings, building, units which are currently being marketed.

RESSEX represents the price movements between two year data points. They collected the first data point for Minimum Market Rate (MMR) is Jan 2004 and the second survey was carried

## 2. Data Availability & frequency of updation

The survey will be conduct on the month of June, September, December and March. The survey coverage stands more than 90% of the universe. Thus this is not a sample based research. RESSEX will be

## 3. Index Indication

**Sales / Demand index** indicates that Demand of the real estate properties. It is „units sold“ between two dates of surveys. The mean index value is 2.42 after the period of March 2009. The index showed the increasing trend and had grown more than 2 times, within two years. (See the Chart #: 3)

**Inventory index** represent the Inventory of the unsold stock between two dates of survey. It covers all new launches (new additions) as well as carried-forward inventory from the previous survey, i.e. Previous Unsold + New Additions. From June 2008 to November 2008 the inventory index doubled. Further from that period onwards the inventory index is continuously increasing in the positive trend. (See the Chart #: 3)

**Price Index** is the Price of the Weighted Average prices against the Unsold (Inventory). Every project“s inventory is multiplied with its price and then summed up and then divided by sum total of the inventory of all the projects as shown in the formula below. i.e.  $Price = (Rate1 * Inventory 1 + rate 2 * inventory2 + .....)/Sum \text{ of } (Inventory1 + Inventory2.....)$ . Before march 2009 the price index was volatile and after that there was increasing trend. (See the Chart #: 3)

**Efficiency index** be a symbol of the market efficiency. It is the ratio between the average sale movement per building and the rate per sq ft. The ratio suggests demand elasticity i.e. the impact on demand given the rise in the property rate. In other words, if the average sale per building is increasing with the increase in rate, the market is efficient. Conversely, reduced sales means the market has become relatively inefficient to that extent. The efficiency index is indicating the negative trend during recent time. Initially, during the period between October 2005 and May 2006 it showed more than 400 points and suddenly decreased in the subsequent year. It again reached more than 200 point on June and September 2009. (See the Chart #: 3)

**Business Turnover index** represents the volume of the trade or in other words business done during the period. This is calculated by multiplying the sq. ft. sold during the

out in Jan 2005; therefore Jan 05 has been considered as the base year which reflects the movement of sale and inventory between Jan04- Jan05. In addition, the Inventory, Price, Efficiency and Business Turnover as on Jan 05, have been considered as 100.

A sale is indexed against the inventory to represent offtakes. The base year for Pune, NCR, & Bengaluru is Nov 08 which represents the movement between Jun 08 to Nov 08. The first survey was carried out in Jun 08, and the base year for Chennai and Hyderabad is March 09, which represents the movement between Nov 08 – Mar 09.

updated on Quarterly basis. The period of updation would be in the month of June, September, December and March and last day of the respective month.

period with prevailing prices. In the recent period, the index showed the increasing trend, which represents that the real estate business is going in progressive trend.

### III. PROPOSED INDICES

The above mentioned indicators are not effectively indicating the growth of the Indian real estate market. In general real estate markets are classified into two types namely, primary market and secondary markets. In the primary market the buyer buy the property from property Builders / developers but in the secondary market buyer buy the property from the owner of the property. If one index is more efficient, it acts as the barometer of the entire price movement of the whole market segments.

The RESSEX index is collecting the price data only from the primary market alone and this is also collected through mysterious Shopping techniques by the way of personal visits to the property Builders / developers project sites, and they are not collecting the secondary market price movements.

The RESIDEX mostly relies on the data set available in various banks who are providing the housing loan to the property

### NEED FOR ONLINE REAL ESTATE EXCHANGE:

At present the price of the real estate secondary market is not more transparent, It can be made transparent when the trading is carried out through online exchanges mode, like the stock exchanges trading system. At present the physical market system (i.e. buyers and sellers of the property meeting physically) is one of the prime factors for the emergence and exchange the black money between the parties in the real estate transactions. Under the Real Estate Online Exchange System the exchange plays the middleman role. The buyer buy the

### IV. CONCLUSION

Both indices are only concentrating on the real estate primary market demand alone and are not concentrating the real estate secondary market transactions. But the market has to focus on both primary and secondary segments. There is also the problem of non- availability of the

buyers, on the way they are omitting those are buying the property on their own money. In India, mostly the banks are providing housing loan on the basic of the property registration value, and mostly properties are register based on the guideline values fixed by the state governments. There are the huge difference between the guide line values and market price of the properties.

The secondary market operations are happening through face to face transactions and there are no proper accounts for this kind of transactions. This kind of poor availability of price information facilitates the real estate secondary market to be most corrupted market. Huge amount of black money is parked into this market. Hence there is a dire need to take the secondary market transaction into account for calculating the growth of the real estate sector. Only then, the index would more efficiently reflect the pulse of the real estate market.

property from the exchange, same way the seller is also sell their property into the exchange and hence the buyer and sellers are unknown each other. The payment will only pass through the bank account transfers.

This kind of market restructuring (i.e. online exchange) will disclose all the price information of the various deals taking place over the exchanges. It will give absolutely believable and reliable sources of secondary real estate market price information and will highly restructure the market transactions.

secondary real estate market prices. Banks and the Government registration department have some of the price data, which is also not reliable. Due to getting some benefits like escaping from the Registration Tax and the Long Term Capital Gain tax, the buyer and seller of

the property registered their property by under valuing the property. Based on the registration value the banks are providing the loan. Therefore the price information of the hold by the bank and the Government registration department are not reliable.

Hence, the need of the hour is creating a new regulation agency to regulate the real estate transactions, and to permit the online real estate exchange for

#### Reference:

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doing the all property transaction i.e. Primary as well as the Secondary market transactions" via online. Market price deal in those online exchanges should be taken into account for constructing the Real Estate Sector Index, to represent and act as barometer of the Real Estate sector. These innovative steps will move forward the real estate sector with more liquidity and transparency.

**Chart #: 1: NHB RESIDEX (2007 – 2011)**

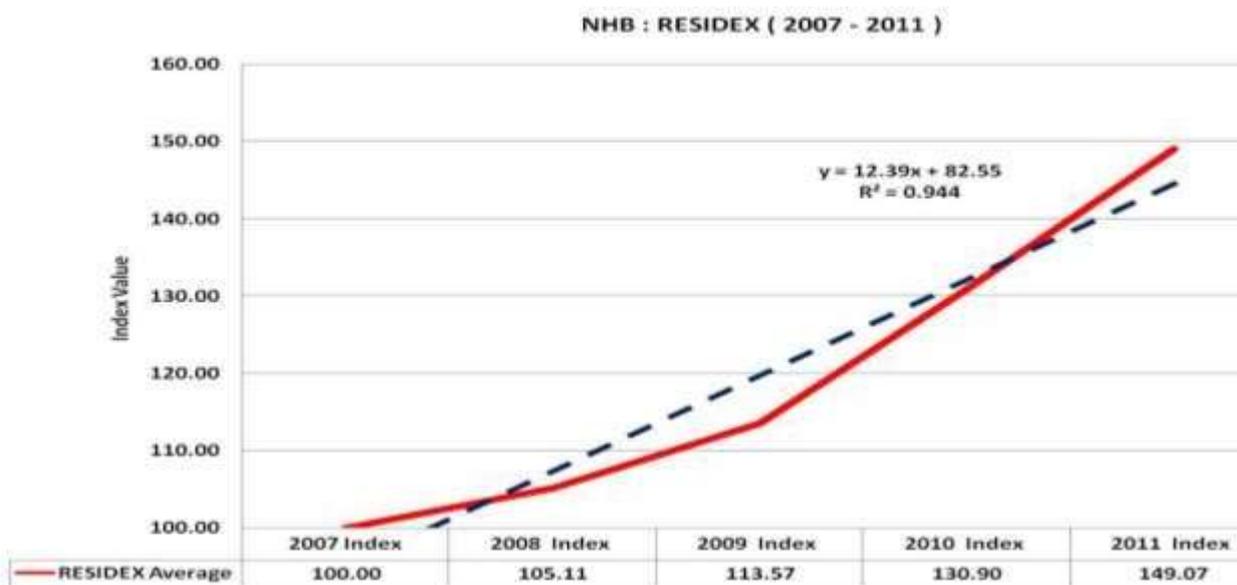


Chart #: 2 : NHB RESIDEX city wise (2007 – 2011)

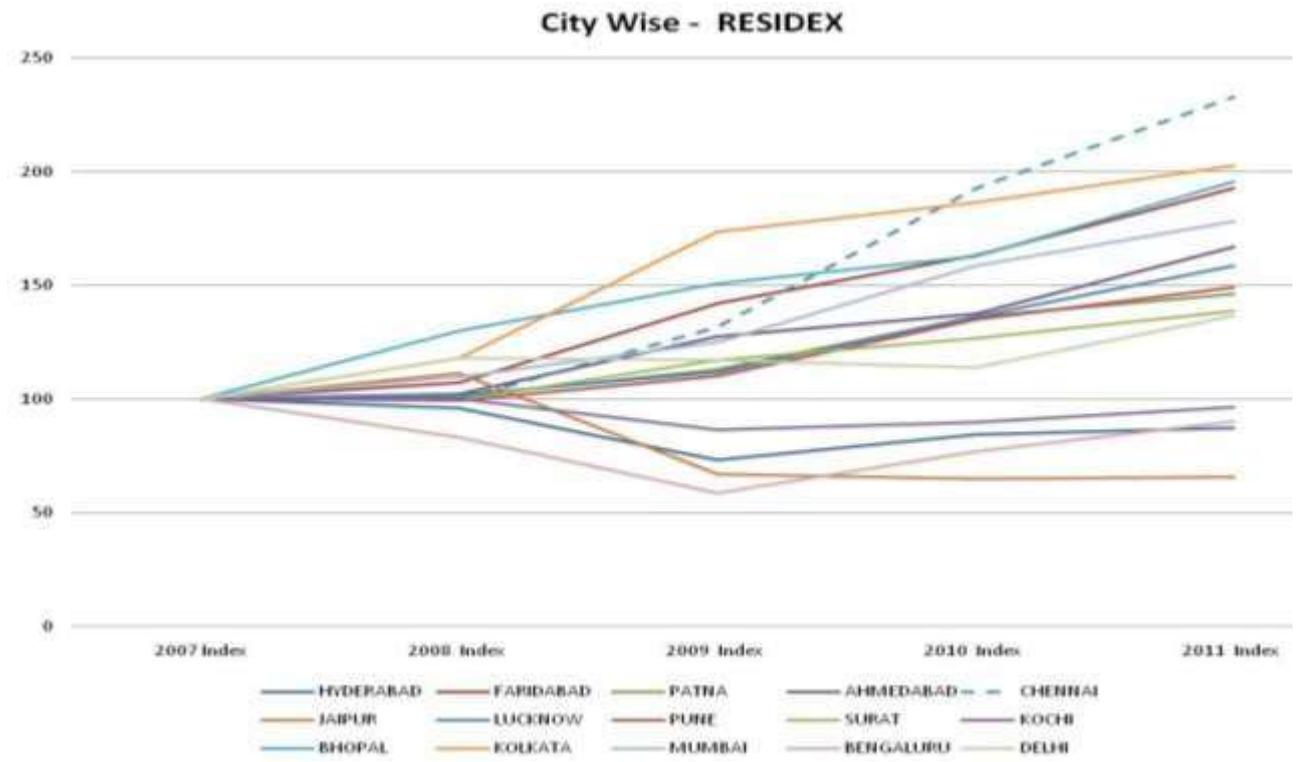
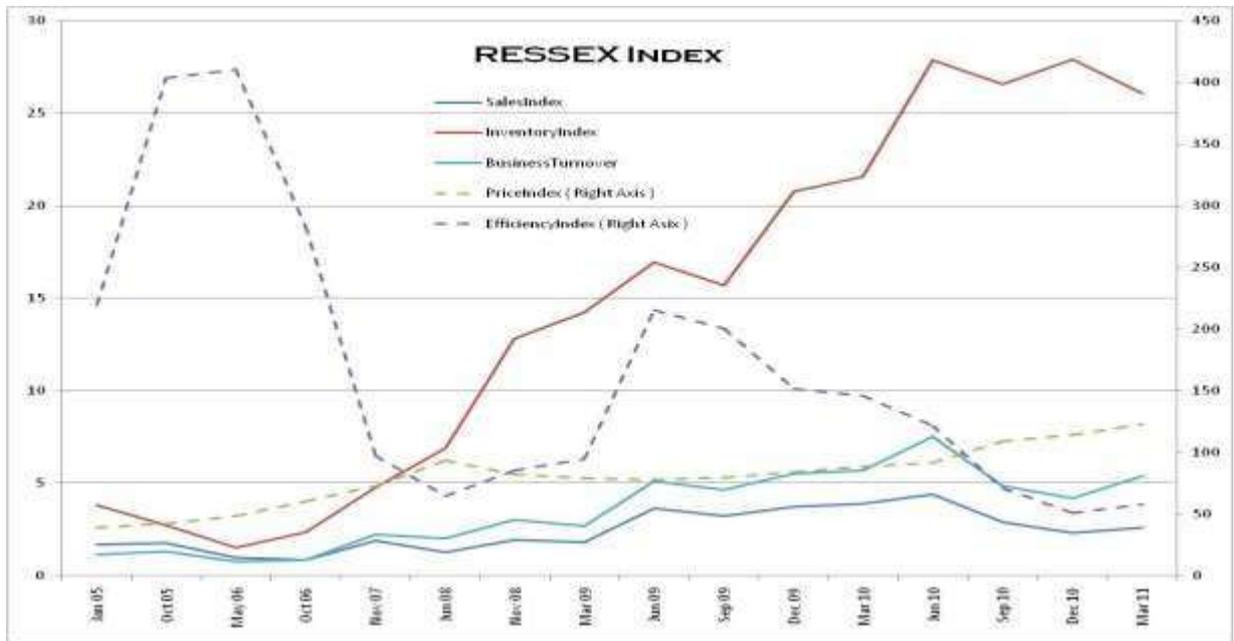


Chart #: 3 -- RESSEX (2005 – 2011)



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