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MANAGING THE REAL ESTATE INDUSTRY IN GLOBAL RECESSION

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ABSTRACT

In the age of globalization, no country can remains isolated from the fluctuations of world economy. Real estate has played a key role in many of the country's past recessions. However unlike previous recessions, this one deals heavily with the over-extension of debt in the residential market. The development of real estate in India has taken place in three primary areas: residential, commercial and retail. The residential segment is the largest segment in the real estate sector and is expected to remain so for some time. The Indian real estate sector witnessed a revolution in past, driven by the booming economy, favourable demographics and liberalized FDI regime. There are currently three real estate markets in the world that will offer investors the opportunity for significant returns going forward: China, India and Brazil. China and India also have some of the highest domestic savings rates in the world, adding to their value proposition. The opportunity for real estate investors in these three countries may be greater today than at any other point in recent memory. Real-estate prices across the country have fallen by 10-40 per cent. Developers are generally still not cutting prices of existing projects, but they face a market in which re-sales could do much the same thing. The total outstanding credit to the real estate sector by Indian banks, both government-owned and private, at the end of March 2009 was Rs. 91,500 crore against Rs. 63,000 crore till March 2008. This was not only an increase of 45% over the previous year but was more than double the amount of Rs. 44,000 crore exposures of these banks during the boom period of 2007.

Mumbai, Delhi and Bengaluru have been found to be the most unaffordable locations for housing for India's middle income groups. Mumbai continues to be the second costliest city in Asia Pacific in terms of prime rental rates. Pune has experienced an exponential growth in the last few years as different villages in and

around the main city are now integrating within its map. While there has been a drop in the rate of decline in office space rental rates in the country in the second quarter of the current fiscal, the absorption rate has shown an uptrend for the first time in four quarters. The Ministry of Urban Development estimates that half of the country's total population will live in urban areas by 2041, up from the present 2.8 per cent, which will lead to a gargantuan shortage of 24.71 million homes.

Rising income levels of a growing middle class along with increase in nuclear families, low interest rates, modern attitudes to home ownership and a change of attitude amongst the young working population from that of 'save and buy' to 'buy and repay' have all combined to boost housing demand. The rise of the middle class (500 Million), Non Resident of Indians investing in Indian realty, foreign direct investment entering in the market, expansion of MNCs and Indian multinationals, proliferation of educational institutions, growth of IT, BPO, food processing and health care- all these are the factors responsible for the growth of Indian realty. The real estate industry in India witnessed unprecedented growth in a relatively short span of time. Indian real estate saw demand for housing collapse from 2008 amid a global credit crunch and buyers fearing job losses. Now that property prices have climbed down and the risk of job layoffs has diminished, the service class is likely to participate actively in property absorption, leading to a strong recovery in residential demand. The booming real estate market that received a jolt during the slowdown last October-November seems to be recovering. People are slowly purchasing, but only for personal use. Not for investment purposes. The Indian real estate industry has not picked up as much as it should have been post-economic slowdown.