



EXPLORING THE REAL ESTATE INDUSTRY OF UTTARAKHAND

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ABSTRACT

Uttarakhand is among the fastest growing states, thus exploring new avenues for real state sector. With brighter opportunities come challenges for this sector to accommodate the growing population and developmental pressure. The study therefore aims to understand the challenges and problems faced by the Uttarakhand real estate sector due to the malpractices of the unorganised sector and for the developers and builders. The study was conducted on the lines of qualitative research design and reveals the ground level reality and challenges faced by the real estate sector in Uttarakhand. The results provides an insight to the present situations and implications it will have in the near future on this sector.

Keywords: Real estate sector, Uttarakhand, un-organised sector, developers and builders

INTRODUCTION

The real estate sector in India has come a long way by becoming one of the fastest growing markets in the world. It is not only successfully attracting domestic real estate developers, but foreign investors as well. The growth of the industry is attributed mainly to a large population base, rising income level, and rapid urbanisation. The sector comprises of four sub-sectors- housing, retail, hospitality, and commercial. While housing contributes to five-six percent of the country's gross domestic product (GDP), the remaining three sub-sectors are also growing at a rapid pace, meeting the increasing infrastructural needs.

The real estate sector has transformed from being unorganised to a dynamic and organised sector over the past decade. Government policies like 100% FDI in realty sector, have been instrumental in providing support after recognising the need for infrastructure development in order to ensure better standard of living for its citizens. In addition to this, adequate infrastructure forms a prerequisite for sustaining the long-term growth momentum of the economy. The real estate sector in India is being recognised as an infrastructure service that is driving the economic growth engine of the country. The Indian real estate market size is



expected to touch US\$ 180 billion by 2020. Foreign direct investment (FDI) in the sector is expected to increase to US\$ 25 billion in the next 10 years, from present US\$ 4 billion. Demand is expected to grow at a compound annual growth rate of 19% between 2010 to 2014, with Tier I metropolitan cities projected to account for about 40 per cent of this. Growing infrastructure requirements from sectors such as education, healthcare, and tourism are also providing opportunities in the real estate sector.

The real estate industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy. The industry's growth is linked to developments in the retail, hospitality and entertainment (hotels, resorts, cinema theatres) sectors, economic services (hospitals, schools) and information technology (IT)-enabled services (like call centres) etc and vice-versa.

However, real estate sector in past five years has witnessed the heights of glory and lows to dust. Evidently the cycles of boom and bust in the sector has considerably shortened, which historically has been familiar to long cycles. With short cycles, the response time to react has considerably reduced leading developers to constantly plan and replan their strategies to get results right. As developers rehash and redraw their strategies, Government has also realized the importance to have a strong regulatory framework in place to sustain growing pressures of urbanization.

The Government has taken prudent steps in overhauling old and archaic laws and introducing some new reforms on the table. However such reforms need to be fair to all the stakeholders and essentially should address structural problems. We believe that real estate sector in India is trending itself into right direction, but still has some distance to cover which would require all the stakeholders to perform their roles effectively and diligently.

LITERATURE REVIEW

The Indian real estate industry is on a high growth path having a current market size of \$15 billion approximately as estimated by **Desai & Rane (2006)**. Real estate prices have risen steeply across India over the last two years growing at 40% CAGR (compounded annual growth rate). The market size of realty sector is estimated to reach \$50 billion by 2010.

The market is growing at a rapid pace due to improved real estate prices and sustained demand from end users as well as investors. With a population growth of 1.7% per annum and a deficit currently of about 22 million houses as pointed out by **Saunders (2007)**; the demand from end users will materialize consistently making the long term fundamentals of this sector strong. Traditionally, residential housing was the dominant segment of real estate development in India. However, with the emergence of commercial office space, retail and hospitality; substantial opportunities have been created in the non-residential segments. The nonresidential segment is predicted to occupy 26% of the overall market share in 2010 as compared to 16.7% held in 2005.

Retail spending in India in 2005 was Rs. 9.9 trillion, of which organized retail accounted for only 3.5%. The organized retail segment in India is expected to grow at a rate of 25% to 30%



over the next five years, reveals **Yadav & Mahajan (2006)**. The growth of organized retail is driven by demographic factors, increasing disposable incomes, changes in shopping habits, the entry of international retailers into the market and the growing number of retail malls. However, **Sreejith & Raj (2007)** discuss the ill-effects of the retail revolution in India, that of increasing social tension among families below poverty line and greater loss of self employment opportunities while explicitly explaining the contribution of retail to India's economic growth. Nonetheless, global real-estate consulting group **Knight Frank has ranked India 5th in the list of 30 emerging retail markets** and predicted an impressive 20 per cent growth rate for the

organised retail segment by 2010. (**Deccan Herald, 2007**).

OBJECTIVES OF THE STUDY

In this study a genuine attempt has been made to find out solutions to many problematic issues relating to the growth of real estate sector in Uttarakhand under the following objectives:

1. Challenges And Problems Faced By The Uttarakhand Real Estate Sector Due To The Malpractices Of The Unorganised Sector.
2. Challenges And Problems Faced By The Developers And Builders.

RESEARCH METHODOLOGY

RESEARCH DESIGN

The study involves a qualitative research design for the purpose of conducting the research. Qualitative research design involves in-depth interviews with the respondents. This helps to explain the reasons for the results so obtained by the research along with discovering new avenues to solve the problems surfacing.

DATA COLLECTION

The study is based on both primary as well as secondary data. The secondary data was collected mainly through various newspapers, magazines, referred journals, Internet, books, notifications, circulars from real estate development associations like CREDAI and NAREDCO and R.B.I reviews. Secondary data was collected with the objective of analyzing the government policies relating to the real estate sector This provided important insights, which proved to be beneficial for suggesting suitable measures, and recommendations that must be taken to make the real estate sector of Uttarakhand globally competitive and regularised The primary research was mainly carried out through separate structured questionnaires and interview schedules for developers/builders, customers/investors, development and government authorities. The questionnaires contained closed-ended multiple choice questions, as well as open ended questions to facilitate unrestrained feedback and input from the interviewees



without limiting the options for their answers.

RESEARCH SAMPLE

In order to analyse the real estate sector in the state, data was collected through separate questionnaires from developers/builders and investors/end users. Structured Interviews were conducted with customers, developers, competent state government authorities and development authorities so as to understand the challenges and problems faced by the realty sector from their perspective. A region wise break-up of their sample size is provided in the tables below:

	Northern Region of Uttarakhand	Western Region of Uttarakhand	Eastern Region of Uttarakhand	Southern Region of Uttarakhand	Total
Number of organised developers and builders	20	15	10	5	50
Number of unorganised developers and builders	14	16	10	10	50

CHALLENGES AND PROBLEMS FACED BY THE UTTARAKHAND REAL ESTATE SECTOR DUE TO THE MALPRACTICES OF THE UNORGANISED SECTOR.

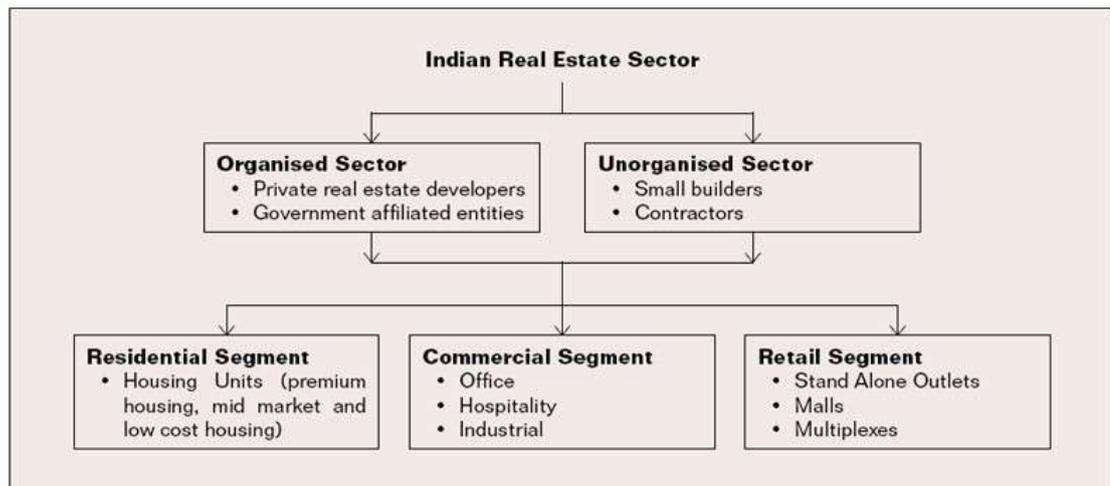
The unorganised/informal sector consists of all unincorporated private enterprises owned by individual or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers. However, informal settlements are residential areas that do not comply with local authority requirements for conventional (formal) townships.

They are, typically, unauthorised and are invariably located upon land that has not been proclaimed for residential use. They exist because urbanisation has grown faster than the ability of government to provide land, infrastructure and homes. Informal settlements tend to be characterised by:

- Infrastructure that is inadequate
- Environments that are unsuitable
- Population densities that are uncontrolled and unhealthily high
Dwellings that are inadequate
- Poor access to health & education facilities and employment opportunities
- Lack of effective government and management.

In Uttarakhand the unorganised players are characterised by contractors and small builders/developers who generally have only regional presence while organised players include private real estate developers and government affiliated entities.

Fig 1: Structure of Indian Real estate sector



Source: D&B Research

Unauthorised developers and Builders in Uttarakhand violate with impunity the sanctioned building plans, master plan and indulge in deviations much to the prejudice of the planned development of the city and at the peril of the occupants of the premises constructed or of the inhabitants of the city or town at large. Serious threat is posed to ecology and environment and, at the same time, the infrastructure consisting of water supply, sewerage and traffic movement facilities suffers unbearable burden and is often thrown out of gear. Unwary innocent buyers/investors in search of roof over their heads are purchasing flats/apartments/landed property from builders/developers, find themselves having fallen prey and become victims to the designs of unscrupulous builders. The builder conveniently walks away having pocketed the money leaving behind the unfortunate occupants to face the music in the event of unauthorised constructions being detected or exposed and threatened with demolition. Though the local authorities have the staff consisting of engineers and inspectors, whose duty is to keep a watch on building activities and to promptly stop the illegal constructions or deviations coming up, they often fail in discharging their duty. Either they don't act or do not act promptly or do connive at such activities apparently for illegitimate considerations. If such activities are to stop some stringent actions are required to be taken by ruthlessly demolishing the illegal constructions and non- compoundable deviations. The builder must adequately compensate the unwary purchasers who shall be the sufferers. The arms of the law must stretch to catch hold of such unscrupulous builders and developers.

What needs to be emphasised is that illegal and unauthorised constructions of buildings and other structure not only violate the municipal laws and the concept of planned development



of the particular area but also affect various fundamental and constitutional rights of other persons. The common man feels cheated when he finds that the people entrusted with the duty of preparing and executing master plan/development plan/zonal plan support those making illegal and unauthorised constructions. The reports of demolition of hutments and jhuggi jhopris belonging to poor and disadvantaged section of the society frequently appear in the print media but one seldom gets to read about demolition of illegally/unauthorisedly constructed multi-storied structure raised by economically affluent people. The failure of the State apparatus to take prompt action to demolish such illegal constructions has convinced the citizens that planning laws are enforced only against poor and all compromises are made by the State machinery when it is required to deal with those who have money power or unholy nexus with the power corridors.

Not only builders and developers in the state but certain section of the society are also indulging in these activities. During our research study we have noticed that people living in the unauthorized colonies in Uttarakhand have not gone for any sanctioned building plans (reasons best known to them). Hence, the units in which they presently reside fall entirely in the unauthorized construction category. Even in the regular colonies, a substantial number of violations of Development Control Norms and Building Bye-laws have been noticed. Such violations cover one or more of the following breaches:

- Excessive Ground coverage without leaving mandatory set- backs;
- Excessive Floor Area Ratio coverage (FAR);
- Violation of height restriction;
- Extension of Building over public streets and other open spaces meant for public utilities;

An analysis of the above-reproduced provisions makes it clear that any person who undertakes or carries out development or changes the use of land without permission of the Planning Authority is liable to be punished with imprisonment. At the same time, the Planning Authority is empowered to require the owner to restore the land to its original condition as it existed before the development work was undertaken. The scheme of these provisions do not mandate regularization of construction made without obtaining the required permission or in violation thereof.

1. Building Code violations

In the case of construction carried out in unauthorized colonies, rehabilitation colonies and slum clusters, informal developers don't follow any building byelaws. In these cases, the solution to the problem lies in first bringing them within some workable ambit of basic planning and then deciding whether the individual structures can be regarded as safe from structural angle and also tenable from the general standpoint of Building Code Regulations. In all likelihood, special norms and bye-laws may have to be applied to such colonies in order to regularize structures which are not unsafe and also not completely out of line with essential Building principles.



2. There are many unlawful activities that are associated with Uttarakhand's real estate sector:

The Uttarakhand Realty sector is considered by many of our respondents, to be the most corrupt sector of the state. Currently this sector is largely unregulated and opaque, with consumers often unable to procure complete information or enforce accountability against builders and developers. This sector has also emerged as a source of black money and corruption over the past few years. Following activities are prevalent in the state and have been observed by us during our research study: In Uttarakhand we have analysed that while making payments, the buyer is required or told to pay part of the payment in cash and part of the payment in Cheque. The reason for the prevalence of this practice lies in the fact that it is advantageous to both the parties. The builder can then show less income while filing for income tax, thus requiring him to pay less income tax. The buyer has to pay a lesser amount as stamp duty, a payment made to the state government, which is generally around 10 percent of the cost of the property however it varies from state to state at present in Uttarakhand it is 4%. This practice is responsible for the generation of black money in the state's economy and loss of revenue for the government.

Secondly, there is a strong builder - politician nexus in Uttarakhand, which prevents law enforcing agencies from doing their job honestly and gives the former a free run. One of the biggest reasons for this blind eye seems to be the liberal donations given by these builders, developers, and property dealers to all mainstream national and regional parties. Parties need funds to run and need to maintain a generous source of such funds are important. Real Estate Agents masquerading as politicians, found in all political parties, also thwart any attempt to regulate this sector.

3. Speculative transactions:

There is a practice in the state of blocking a property by giving a token amount and then selling it off to someone else for profit, without ever paying the full price of it or getting it registered in one's name, this sought of wrong deeds should be curtailed as it increases speculative transactions and fuels price rise. The genuine buyer is adversely affected by this activity, as the price of the property is hiked unnecessarily.

4. Multiple transactions of the same property:

It has also been observed in our research study that sometimes, same property is sold to many unsuspected innocent buyers. Palm green project in Uddham Singh Nagar is a classic example in this context this project is of Pal infrastructures but the land bought by them was already sold to many other buyers and registries were on multiple names. All such illegal things are happening in the state because there is lack of stringent laws, which could prohibitate such illegal practices.



CHALLENGES OR PROBLEMS FACED BY THE DEVELOPERS AND BUILDERS

Following are the main challenges and problems faced by developers and builders in the state's Real Estate Sector:

1. Absence of single-window system for clearances:

The absence of any cohesive policy has added to the problems of the real estate developers in Uttarakhand. Developers rue the absence of single-window system to get clearances and proper guidance about the different rules and regulations in the state. Proper and timely implementation of schemes and plans are also important for example the master plan for Dehradun has only created confusion and there are so many projects in the state, which are in limbo. Huge investments made by developers and builders have gone for the toss. The situation is no different in other cities of the state like Haridwar, Haldwani, Nainital, etc. Though there are variety of factors contributing to the delays in the project such as bottlenecks in the supply of raw materials and labour, difficulties in accessing funds, etc., it is primarily the process of complying with regulatory approvals that is contributing substantially to the delays. The construction approval process is complex, and as per the report of the committee on streamlining approval procedures for real estate projects set up by the MHUPA, there are a minimum of 34 regulatory processes to be followed by a developer for obtaining construction permits, which takes an average of 227 days. Development projects in Indian cities have to undergo a lengthy approval process, which results in delay of projects, eventually escalating construction costs, which are borne by the user or the buyer. India is ranked 177 out of 183 countries with respect to dealing with Construction Permits, which indicates the challenge developers face in India in development of real estate (Jones Lang LaSalle, 2011). The details of activities and approximate time taken for approval of a real estate project are given at (Table: 5.1). Furthermore, regarding Indian Real Estate Transparency Index, among the states, four southern states found place in first seven, other states being Maharashtra, Gujarat and NCR Delhi. The bottom states included Jharkhand, Bihar, Uttar Pradesh, **Uttarakhand** and so on.



Table 1: Description of various activities and time taken for approval of real estate projects

Activity	Time taken (in months)
Conversion of land use	8-12
Project letter of intent and license/Intimation of disapproval (IOD)	4-6
Pre-construction approval from state level bodies	6-8
Pre-construction approval from central bodies	5-7
Approval for construction plan sanction	5-7
Approval for commencement of construction	2-3
Construction period	24-30
Inspection and approval procedure for building completion	2-3
Occupancy certificate receipt from date of completion of above	2-3
Approval process after land acquisition till commencement of construction	24-32

Source: *Indian Real Estate Transparency Index, 2011* (2011), Jones Lang Lasalle, New Delhi

Having a single window clearance for all the approvals in the state will drastically bring down the delays and the costs related to corruption. Given the availability of technology, processes can be automated and the need for human intervention can also be reduced substantially. Some cities such as Ahmedabad, Chennai, Cochin, Kozhikode, Madurai, Trivandrum, Pune, etc., are already implementing an automated system for approving building plans.

2. Crippling policies of State government

Though there were many factors that had led to a slowdown in the realty sector in the state over the past few years, experts feel that the lack of a cohesive urban development policy and most importantly, due to rapid changes made by the state government from time to time in the laws related to land acquisition, big players are facing threats to invest in the state. The tough time for this sector started in the state much before the global slowdown hit the property market in other parts of the country after 2007. The amendments in land laws, high stamp duty and circle rates brought by the government at that time had virtually put a dampener on the property business in the hill state. Although there has been a steady rise in the revenue from stamp duty and registries, property rates remained stagnant. Buyers felt the squeeze when the government brought an amendment in land laws in 2007-08 that restricted outsiders from buying more than 250 sq. m of agriculture land. The move sent out such a negative message that outside investment evaporated despite the fact that the law was only meant to protect agriculture land and did not affect urban properties. This move brought the thriving real estate business to a near halt.

In 2009, the government implemented the master plan of Dehradun and affected a 1 per cent



cut in stamp duty rates in a bid to boost the real estate business in the state. But this move also failed to improve the situation. In 2010, the than government reduced the stamp duty to 4 per cent in order to spur growth and announced other sops that could boost the real estate business. The state government did tried some other remedial measures also like raising the permissible height of the housing projects from 15 metres to 21 metres. But this, too, did not elicit the expected response from the builders and investors.

As a result several projects were either shelved or went in limbo, giving jitters to investors and leaving the end users high and dry for example: multi crore residential project Arborea, which is located at the foothills of Mussorie near Sahastradhara; infact many residential projects were started in the Doon valley during 2002-2007 are still hanging fire. Many of these projects have either been abandoned or remain incomplete as builders found it hard to complete their projects.

3.Lethargic attitude by the state government in the enactment of the SEZ act for Uttarakhand: A couple of proposed special economic zones (SEZs), both in private and government sectors, in Uttarakhand have failed to make any headway. Parsvanath developer was building the SEZ at Sahastradhara Road in Dehradun; which involved an investment of Rs.10.50 billion, covering a total developable area of 3.8 million Sq. ft. The company had already made a huge investment in the site, some seven years ago but till now the project has not commenced. The government is yet to enact its own SEZ Act and take final decision on its proposed SEZs at Sitarganj and Dehra Dun. Government has already shelved its proposal to build an SEZ at Pantnagar. According to top officials, there is a need to study SEZ rules of other states and adopt a suitable model for the hill state in the wake of SEZ controversies in West Bengal and elsewhere in the country. Earlier experiences of Special Purpose Vehicles and PPP modes should also be taken into consideration. State government has to clear its vision on this issue so that we can win the trust of the MNC's.

4.Lack of foresightedness by development & planning authorities in Uttarakhand:

Development authorities like UDA, MDDA, HDA, SADA etc are not making long-term strategies, which hinder the pace of sustainable development of real estate in the state. There is a lack of planning and coordination in the developmentof real estate sector among various departments of government machinery. Due to rapid changes made by the state government from time to time in the laws related to land acquisition, big players are facing threats to invest in the state and thus hindering the development of realty sector.

5.Environmental clearance issue:

Many of the projects in the state are suspended or delayed due to environmental clearance issue. There is lack of co-ordination among the various government agencies; this led the problems in state's real estate sector. Uniformity in formulation and implementation of plans and policies are required from respective government and development authorities in Uttarakhand as once the approval is given by them and a big project is commenced it can't be reverted as lot of investment is made and many stakeholders are involved. For example: In 1996 Supreme Court bans further construction of multistoried buildings in Mussoorie as it comes under the earth quake prone zone.



6. Slowdown in global & domestic economy:

Slowdown in global economy along with the increase in rate of interest by RBI seems to have a strong impact on domestic economy with GDP growth cooling down since past few quarters. The GDP growth recorded in first quarter of financial year 2012 has been slowdown to 7.7% against the 9.3% in first quarter of financial year 2011. Even the projected GDP growth of financial year 2013 has been 5.6%. This is directly impact the real estate sector as reduce in domestic as well as foreign capital flow in this sector.

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