

The Importance of a National Effort to Promote Investment in Real Estate in India

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Background

In light of the current crisis of COVID-19 and its ongoing and impending impact on the economy, the real estate industry in India is being pushed further down the slump that it was just trying to climb out of. The demand for housing has been low nationwide, and to meet it, developers have not only been letting go of their upsides but have also introduced smaller more compact homes to fit the ever decreasing budgets of new homebuyers.

On the other hand, while the past ten years have been a slow decline of the industry, they have been unreal in the context of the Indian Stock Markets.

The is because of the phenomenon of Mutual Funds.

This paper aims to draw out the importance to bring back real estate as a legitimate investment priority in the Indian mindset and shed light on a path that might lead to that very goal.

A decade gone by.

A ccording to the Association of Mutual Funds India (AMFI) the Assets Under Management (AUM) of the Mutual Funds Industry has grown from ₹ 7.67 lakh crores as on 28th February, 2010 to ₹27.23 lakh crores as on 29th February, 2020 more than 3½ fold increase in a span of 10 years.¹

The Number of folios have been increasing consecutively month by month for the past 6 years.²

In contrast, the total value of the real estate market was expected to reach

approximately 12 lakh crores in 2020. ³.

For decades now, the real estate industry has been an underdog in the investment platter of the Indian Middle class.

The millennials (22-37 years old) are increasingly delaying their entry into real estate. Finding the stock market and equity instruments a lot more lucrative and affordable in the short term. Real estate is not a top priority.

Is real estate really better?

Yes and No. It is true that investing in real estate requires a substantial amount of money upfront compared to stock options and are much less easily liquidated. And given the past decade of good times in the stock market, stocks have been looked at as a much healthier investment.

However, recent events have been a deafening testament to the risky, volatile and speculative nature of the stock market.

Real estate is proven to be a much more stable form of long

term investment. With it not only providing stable rental returns but also appreciating in value year on year.

More Indian cities are getting infrastructure revamps such as metro rail networks, smart city formats, town planning schemes, and road and highway development than ever before making property values in cities bound to rise.

Furthermore, studies in the US have shown homeownership has provided for wealth accumulation for owners. According to the Federal Reserve's Survey of Consumer Finances, a typical homeowner's net worth was \$195,400, while that of renter's was \$5,400. A typical homeowner will be ahead of a typical renter by a multiple of 45 on a lifetime financial achievement scale. ⁴

Real Estate ownership is also beneficial to the economy, people do not view ownership as one and done. They want to constantly improve. So homeowners after 7-to-10 years typically

sell their starter home and trade up. For some empty nesters, improvement may mean downsizing. Whatever the case, homeowners do buy multiple homes over their lifetime and in the process contribute to economic growth and job creation, and in the process also increase their own wealth. ⁵

Dubai for instance is a vision of an economic model fully built upon the real estate market. ⁶

Homeownership provides social benefits beyond pure financial and economic benefits. Research on the subject has found that, other things being equal, children

of homeowners do better in school (higher test scores and lower anti-social behaviours). Homeowners are more likely to be involved in community civic engagements, local elections, and volunteer work compared to renters. Health outcomes are also better with homeowners. Perhaps this result arises from a better sense of self-control and self-worth among homeowners versus renters as academic studies have shown. ⁷

Singapore has one of the highest Human Development Index (HDI) in the world and this is often attributed to the fact that it has one of the highest homeownership rates in the world with over 90% of the population owning their own homes. ⁸

Real Estate: A nation building exercise

The stock market is an essential tool in the overall well-being and growth of an economy. It provides a steadfast investment opportunity thus, supporting investors and businesses and it also promotes the attitude of spending and investment which further leads to economic growth. The marketisation of stock investment instruments have made this a game of speculation, enticing the youth with quick ways to grow their wealth. The stock market has blossomed solely through this massive accumulation of middle class income. However,

even in a market built upon the people's money, it is the people who stand to suffer. As it stands today, a large portion of this accumulated wealth has been wiped out. While the Foreign Institutions have used their macro intel to step out at the peaks, this accumulation of middle class wealth has been drained away from the economy.

Real Estate is a true nation building exercise. In a sense that the people's money stays within the economy, hence growing the economy. Being a manufacturer of a tangible product, growth in real estate has a direct effect on GDP growth. Real estate also has a

huge amount of ancillary industries supported by it. Every time a home is sold, it is directly adding to the growth of over 200 different industries. Due to this, real estate growth adds hugely to overall employment. Real Estate and its ancillaries are some of the most labour intensive industries in the country employing lakhs of people each year.

With a little more Government support and focused policy making this industry can become a major driving factor to India's economic growth.

Sign of the times.

As India grapples with the effort to control this pandemic, millions of middle class households sit at home in this period of complete lockdown. The stammering crash of the stock market has depleted a huge amount of wealth from these mid income households. Years of savings have been wiped out.

It is not farfetched to assume that this shakes one's faith in the financial systems making one realise the tenderness and volatility of it all.

A decade ago, approximately two-thirds of American adults

had money in the stock market. But after the Great Recession, job security, financial confidence, and the means by which investors invested their money were threatened, which all took a major toll on investment sentiment. By 2016, market participation dropped to just over 50%. Americans are still recovering from the fallout and financial advisers often encourage them to invest in order to maximise their long-term returns. However, a majority of young adults aged 18 to 34 are ignoring this advice; instead, they're saving their money or investing in real estate. ⁹

Lockdown has forced the Indian public to be in the shelter of their homes. Giving them a chance to introspect their home-buying decision. Many are left not only rethinking their investment choices but also their living scenarios. Many breadwinners are being forced to confront the limitations and aspirations of their home choices.

Many owners who are temporarily hosting their old parents in this period of lockdown are wishing they had a third bedroom while their children slept in the hall. People are also being forced to reckon with the shortcomings of the utility

and design of their old homes and societies.

Renters are realising the importance of owning as they watch the crumbling market wipe out the investments that they were made to believe were solid.

It is a very critical moment in the sentiment of this investor base. For a decade this generation has been made to believe the resounding phrase : “Mutual funds sahi hai” giving rise to this highly speculative and unrealistic boom in the markets, only to watch it fall like a stack of cards.

Without a doubt, this crisis has left many in fear of losing

their jobs and the amount of personal wealth lost will take time to recover. Depending on how far this goes, the time it will take for spending and buying to re-normalise will vary.

The makings of a Phenomenon

Many believe that this 'phenomenon' of middle class income flooding the stock markets is partly accredited to the consistent marketing efforts taken by AMFI. "Mutual funds sahi hai" is a phrase every household is aware of as the ad that would play on primetime slots during major sporting events.

We saw the financial instruments being endorsed as the safest most obvious way to park your money. All by cricket gods and bollywood personalities in sometimes

emotional and humanistic shorts designed to play with the sentiment of aspirational personal growth and security.

This is a benchmark example of how an association could successfully manipulate a whole generation of earners. Giving rise to the behemoth of the industry that it is today.

The AMFI devised a campaign so strong and resounding that even individual players could latch on to it in their branding communications. Much like PM Modi's "Make in India"

Turning the tides.

There has never been a more opportunistic time to start real estate's very own phenomenon. With indirect taxes clear, RERA clear and a slow but sure maturing of the real estate financial systems. The ground is ripe to sow the seeds of an attempt to bring back the tide of real estate. With RERA now mainstream, there has never been a time when buyers have been more confident about the risks involved in investing. And with the govt. bringing GST to 5%, real estate has never been more lucrative.

This coupled with the sentimentality and introspection in the Indian public brought on by

this current lockdown regarding homes being safe spaces and the plight of the stock market, makes this a crucial time.

Even though the current recovery will take some time, developer associations must unite to create their very own “diamonds are forever” franchise and take an active effort in effectively marketing and promoting the importance of owning real estate as not just a sales strategy but also as social message.

What De Beers and AMFI did for diamonds and Mutual funds, real estate associations must come together and do for real estate.

This needs to be a nationwide association campaign with an aim to reach out to every Indian in an effective emotionally delivered narrative.

In Summary

- ◆ **Real Estate to be gravely affected.** There will be a great fall in consumer sentiment and confidence due to construction delays and rising uncertainty. Demand will remain weak for the rest of the year.
- ◆ **The crash of the stock markets has wiped out wealth,** leading to rethinking and introspection of investment choices.
- ◆ **The lockdown has forced people to confront** not only the importance of ownership but also rethink their individual home choices and aspirations.
- ◆ **There has never been a better time to invest in Real Estate,** and the developer associations need to increase awareness.
- ◆ **Real estate is a nation builder.** Growth in this sector fuelled by pro-investment policies and a switch in sentiment can directly influence the growth of the nations economy.
- ◆ **Real Estate needs a unified marketing phenomenon** much like the mutual funds industry, to retake the stage as a legitimate investment priority.

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