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A STUDY OF IMPACT OF DEMONETISATION ON REAL-ESTATE

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ABSTRACT

Demonetization, is a bold decision that paves the way towards elimination of involvement of Black money and the cash transaction dealing in real estate sector. The resale property segment will take a big hit. However, short pain is inevitable when we look for eventual long term cure for the diseases. Author study the impact of demonetization on the Real estate in terms of Governance, Price of real estate, Reformation, sectoral growth, Foreign Direct Investment, Social/ affordability, Policy and Interest rate. Demonetization will reduce or create the problem of liquidity of cash driven real-estate market. However, in long run it will bring much needed efficiency, transparency & affordability which are integral premises for a welfare state & benefits to real estate sector but it depends on proper implementation of Benami transaction, real estate regulation acts etc will ensure the growth of the real estate sector in right direction which plays a crucial role in the country GDP growth.

Keywords : Governance, Reformation, Sectoral growth, Foreign Direct Investment.

I. INTRODUCTION

At the stroke of an hour of the midnight of 9th Nov 2016 Rs 500 and Rs 1000 legal tender ceased to be the legitimate medium of exchange and India lost 86 % of its monetary base. The immediate effect of this currency demonetization on the capital intensive real estate sector can be analyzed. At the initial stage of the real estate project, land purchase has the highest component of unaccounted money. There is a cash component of 20-30 per cent in property transactions, largely due to the difference between the circle rate and market rate of property. No registration records were maintained even for larger properties. Real estate sector is one of a booming market in the country especially in urban and semi urban area with contribution of 11% of GDP. Real estate sector in India has been often inflated and involved with large amounts of cash transactions. With the recent demonetisation scheme by the government, it will affect the real estate sector in multiple ways. Demonetisation is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. Due to recent demonetization bringing down lands price which give direct benefit to common man, also give beneficial to organised construction sector as this step hardest hit to land buyers who hold buyers and seller to ransom. Demonetisation also helps to clean up real estate sector as this sector are running on highway of parallel economy. However real estate sector is hit hard by recent demonetization but it can be said that in over all, real estate sector is likely to grow in long run. Prices of residents properties will fall and more people will be able to buy their own houses. Recent move by the NDA government to demonetize 500

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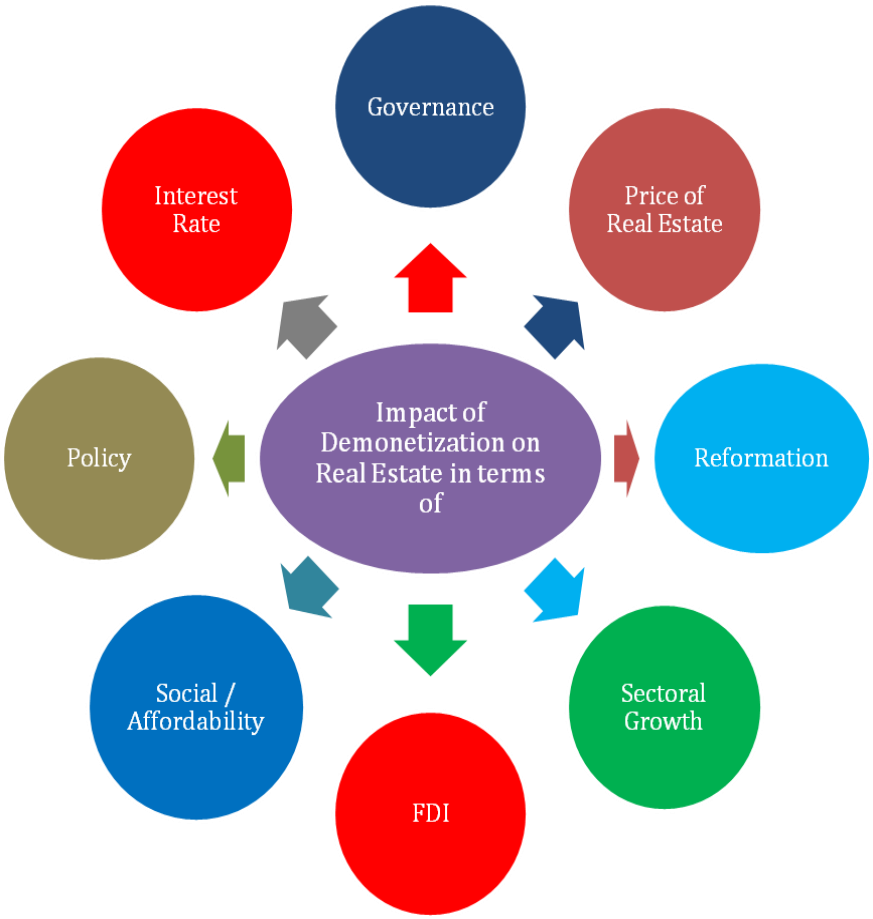
and 1000 rupee notes is expected to have a significant hit on the real estate sector which contributes to about 11% of GDP and a safe place of investment of unaccounted money.

II. OBJECTIVE

The Real estate sector will definitely be affected by the Demonetization exercise as it has traditionally seen a very high involvement of black money and cash transaction. The objective of this paper to study the impact of demonetization on the Real estate in terms of Governance, Price of real estate, Reformation, sectoral growth, Foreign Direct Investment, Social/ affordability, Policy and Interest rate.



III. GOVERNANCE

Real estate sector being a considerable contributor to GDP, ensuring that it prospers while providing affordable housing for all is the need of the time. Recent decision of govt of demonetisation is expected to have big impact on real estate sector due to high percentage of cash transactions and black money involved in it. Demonetisation will act as deterrent and now people will move to non cash methods which will bring more tax and revenue. Real estate sector is important for India's economy and also for meeting housing needs of lacs of people. Demonetisation will indirectly bring the required transparency and ethics in this sector, thereby ensuring sustainable development. Apart from demonetization scheme, Govt. has take other steps, like Benami Transactions (Prohibition) Amendment Act, 2016 to end the menace of unnamed transactions in Real Estate.

Also Real Estate (Regulation & Development) Act, 2016 has been passed to regulate the sector & protect the buyers. The circulation of black money in real estate sector has led to speculation and hiked the prices of property. Inflated property prices made them beyond the reach of common people. Hence the govt. steps to curb the black money circulation in real estate owe much appreciation. It will bring transparency as well as curb corruption by curbing black money hoarding and prices of property will be realistic from the sector as now only accounted money will flow into it. More transparent primary residential deal which largely influenced by home finance players.

It will further slow down the already sluggish sector as no cash left for interim period however it will offer initial financial crunch for cash deals especially in tier-III cities. Many of these transactions were shown as moveable properties to avoid capital gains tax. Lack of cash in the market has almost stopped the real state sector. Because there is huge transfer of cash with respect to Cheque payments in real estate sector. Though the demonetization's pro exceeds its con as it pushes the economy towards "Cashless" or "Plastic economy" on which govt. has better control but it has been perceived unsafe by many viz. Recent example of leak of debit card details and its penetration is also skewed in deeper regions of country. The move will clean up the real estate sector by bringing transparency, follow up actions expected:

- It will curb the black money hoarded in form of cash as most of the transactions are done in form of cash.
- Many of transactions were shown as moveable properties to avoid capital gains tax. The scheme is likely to correct this issue.
- Since after demonetization the purchasing of property becomes difficult. Hence real estate businesses will be face a dip.

Reduced amount of Cash transactions and reliance on online transactions will improve transparency.

Cashless transaction will force the buyers and sellers to declare the actual cost of transaction thereby increasing the registration charges in turn the income of the govt. Investment of unaccounted money in the sector in speculation of price rise has significantly inflated the prices there by leaving basic housing a dream of the common man. Transparency helps in costs and there by improves affordable housing. Unregistered brokers, indulging in illegal and unaccounted transactions will be forced to stop. More bank transactions and more money in circulation will help banking sector reflect the changes made in the repo rate and thereby reduce the interest rates. Hence a win-win situation for the common man. Streamlining the money flowing into the sector will help the organized constructors improve the business in the long run. Demonetization and real estate regulation act 2016, Benami Transaction act put together will help in a long time.

IV. PRICES

The current demonetisation will make it extremely difficult for any buyer to pay in cash. The seller will also not accept such money. This will automatically bring down property prices. The prices of the land or property would come down for the next 2 years due to high amount of "Black money" that was transacted in realty dealings. - Cash content:- in property dealing will get affected due to squeeze in hard money in the market which is very high in smaller cities. As the decision will impact cash deals then it will lower down the high housing prices and in this regard consumer gets benefit. Further The debt-ridden unorganized developers will face cash crunch in short term and will be forced to cut down the prices to push up sales ,much to the delight of

property buyers. land prices and demand of land prices and demand of land for new project will decrease and it will have impact on the overall price of houses. Residential property prices and property sales fall and the negative impact is likely to be more pronounced on sales of higher-end, premium property, which is targeted by high-net-worth individuals and investors, rather than entry-level housing targeted by first-time home-buyers. Its immediate effect will be bringing down the demand in real State sector as till now about 50% of the transactions in real estate sector took place in cash.

It is expected that Demonetization will bringing down land prices by 20 to 30% and would thus be beneficial to the organised construction sector. Curbing the methods of raising credit in real estate sector - With the demonetisation, the decrease in liquidity will affect the rate of new constructions and new development in India. With no cash left for at least an interim period, realtors expect this already sluggish secondary market to slow down further. Recent demonetisation slowed down the money that was rotating and the long-term effect of this will definitely be good. Prices will remain realistic. As the prices gets controlled buying of houses become affordable for many people. Due to huge difference in collectorate price and the market price of real estate property there is huge cash component (20-30%) involved in property transactions.

As such huge chunk of money goes unaccounted thus making this sector as a best platform to park black money. Demonetization will certainly check these cash transactions and bring back transparency. Artificial inflation of rate of property will go down and it is a good news for honest people willing to buy land as the prices are bound to go down. Previously, people with black money were willing to pay higher prices artificially inflating prices. Further deflation in Real estate to some extent there will reduce the prices of project and new house, which will be affordable to new buyer. The so called safe heaven for black money will be less attractive to black money holders and investors. More discount to buyer as builders try to attract more buyer by offering discount to the buyer, it will increase competitiveness in real state market and help to reduce prices. Alternative for black money as it is said that real estate developers are asking buyer to pay in the form gold instate of paper money up to certain limit, it will boost the alternative way of black marketing and ultimately led to rise in prices of gold and import of gold. It will have set back for Govt. policy of Gold monetization and sovereign Gold bond scheme.

4.1 Long term effects:

- Due to increased deposits in banks the lending rates may decrease making homes more affordable especially in the affordable segment, much to the benefit of the government's Housing for All mission.
- This will boost home sales and generate job opportunities to allied dependent sectors as well.
- Real sector will be transformed into more efficient, organized, fair and transparent sector and will be put on the roadway leading toward sustainable growth.

V. REFORMATION

This move would shift the dealing through banking channels that would weed out "middlemen" and "brokers" who used to put customers at ransom by raising the price of the property to exorbitant rates. As unorganized construction will be hit hard, it will mitigate the problems arising out of Unplanned Urbanization & Unchecked Urban sprawl. Reduce cash transaction will temporarily impact retail real state dealer but in the mean while it may offer cashless payment method like e-wallet , plastic payment cards etc. So even though initial difficulties it

will in general remain intact. Further it would have impact on money laundering as it was a means to convert black money into white by investing them in real estate. With surgical strike on unaccounted cash, Real estate sector will be cleaned up of the malice of money laundering. Low prices will help organised construction sector and will help government in providing affordable housing to poor people.

VI. SECTORAL GROWTH

Larger inequity among developers as often the money from cash transactions is used as capital for completing the construction. With the demonetisation, the market leaders will remain while the small builders will have to find new methods of obtaining credit. Big dealer & developer will have minimal impact but smaller investors will have worst impact. However, it will help to eliminate non-serious player from the market. In addition it will impact RERA which further discipline the industry. Freeing of trapped black money in the sector as well as likely increment in investment from the private as well as foreign players will boost GDP & consequent employment opportunities will generate in Real Estate as presently it constitutes almost 11% of GDP. Developers for a while stop purchasing land or will go for "joint venture" with land owner. Projects would impact as capital form informal source get restricted. However it may offer more institutionalized capital and FDI equity & debt player will play important role. The demonetisation, coupled with the passing of the Real Estate Regulatory Act, would weed out the black money elements from the real estate sector. The hardest hit by the move would be 'land brokers,' the middlemen in land dealings who often hold buyers and sellers to ransom. The cash component is higher and demonetisation thereby makes real estate more illiquid for some time. Further the government's move will have a negative impact on home-builders over the next 12-24 months.

VII. FOREIGN DIRECT INVESTMENT

Demonetization not only lead to decrease in prices the salaried middle class, small traders, cultivators would be able to fulfill their basic need of affordable housing and would be the biggest legitimate beneficiaries of demonetization. With formal channels of transactions coming in to use real estate sector will become more legitimate, stable, ethical and would no longer be the medium for stashing illegally occupied money and open avenues for clean and ethical person to come as service provider and hence in turn improve quality of service, bring in more competence and affordable prices. All these aspect would clear the way for more foreign direct investment(FDI) coming in this sector with formalization of transactions. The prevalence of white money or accounted money in the economy would create a level playing field for the people by making the goods and services available at affordable prices.

VIII. SOCIAL /AFFORDABILITY

Demonetization will lead to correction of real-estate prices in market where investment was done through black money. Land prices will come down in short to medium run, it will make housing within the reach of lower to middle classes. The common man would be able to purchase the property due to lower prices and a real estate boom can expect in the next 5 years, which would be good for the nation. There will be huge fall in residential property sale and property price which effects investor and high network individual. As currently interest rate for housing is lowered by govt, with more speculative behaviour there is chance of dip in interest rate. As a

whole it is a winning situation to customer. The falling of prices in real estate paves way for medium and low earning individuals to fulfil their dreams of buying home and demonetisation will curb the menace of black money used in the market.

IX. POLICY

This move will also help the Government of India to accelerate the initiatives such as Atal Mission for Rejuvenation and Urban Transformation (AMRUT), "Housing for all by 2022", Smart Cities due to increased investment. In addition, it will plug the loopholes of the recently passed Real Estate Regulation & Development) Bill. Low rate of property is push to smart city/Amrut yojna, helps tier II and tier III cities to have investment from big investing players. Weaving of Benami transaction and real estate bill can become a boon for affordable sustainable housing and promote AMRUT and housing for all. Cleaning of real estate single window clearance helps the every customer to get the property at genuine rate, which also the main aim of HFA'22 scheme of govt.

X. LOW INTEREST RATE

The move of Demonetization is also likely to have a habit changing impact in the Indian populous and there could be increased belief of keeping cash in the banks rather than stashed at home and use formal banking channels for their spending needs. With a large part of the cash moving through the banking channels, the banking sector is likely to be flush with funds in the near term and this would help them reduce cost of funds for such period. Bank are getting money due to demonetization which leads to improved liquidity and has ability to maintain the low interest rate in market for adequate time. Bank is getting money which they can use for lending purposes for construction works. Decrease in interest rate will allow consumers to invest in real estate. Subsequently it will increase the construction work.

XI. CHALLENGES AHEAD IN THE REAL ESTATE SECTOR

With introduction of new denomination of Rs. 2000 and Rs. 500 notes without adding any additional security feature to the notes. There is no guarantee that accumulation of black money and cash transaction in the form cash will stop in the real estate sector. Demonetisation of higher denomination currency notes of Rs 500, Rs 100 and Rs 10,000 in the 1978, had effected the real estate sector significantly for some period of time and again it was back on the same track after some years due to the introduction of new currency notes. To ensure that black money would not enter into the real estate due to new currency notes, government should take all necessary steps to make sure that all the real estate business transaction will go through the banking system.

XII. CONCLUSION

This will change now that the investments would be legal. In the last couple of years, the government has initiated a number of key reforms in the real estate sector like Real Estate Regulation Act (RERA), GST, REITs and Benami Transactions (Prohibition) Amendment Act, 2016, besides reforms related to FDI, to bring in transparency. With this step, real-estate sector will become more efficient, evolved, corporatized, fair and transparent in long-term. Demonetization move and the recently passed Real estate Regulatory Act would bring

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more transparency in the sector but to prevent illegal transaction, the government must cultivate the habit of "cashless transactions" among the people and print less number of currency notes in future to avoid hard cash transactions, responsible for creating "unaccounted money". With Real estate Act/ Benami Act/GST/real investment trust, this demonetization is kind of “cherry” on the cake for transparency/ease of doing business/FDI attraction in the country. So demonetization will reduce or create the problem of liquidity of cash driven real-estate market. There will re-negotiation or cancellation of existing agreements. However it longer run it will bring much needed efficiency, transparency & affordability which are integral premises for a welfare state & benefits to real estate sector but it depends on proper implementation of Benami transaction, real estate regulation acts etc will ensure the growth of the real estate sector in right direction which plays a crucial role in the country GDP growth. Demonetisation demands more transparent mechanism for capital market and helps in improving ease of doing business, FDI flow and different initiatives and policy launched by Government of India like national urban livelihood mission, Atal Mission for Rejuvenation and Urban Transformation (AMRUT), smart cities etc. To sum up, the move will have overall positive impacts on the sector. For this since now onwards govt need to keep stringent check up on new developments.

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