

To Identify The Causes And Effects Of Recession On Construction Sector For Pune Region

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Abstract - The thesis reveals the real estate scenario in India before economic recessionary period and after that period. The main indicators and causes of various past recessions were thoroughly analyzed and was observed that stock market crash and oil crises were the major indicators of the major past recessions. Having enjoyed an extended period of economic prosperity, many industry executives have been closely monitoring the bell-weather indicators in order to better understand what a deep recession will mean to their companies. The importance of the study is to address the next change in business cycle by finding the root causes of recession. By the help of this study we get an early indicative warning to the industry and financial institutions of an impending slowdown and recession. The study also focuses on Pune Real Estate Sector, to find the effects it had faced during economic downturn. Real estate cycles do tend to be fairly long in duration and occur in any asset market which tends to have several defining characteristics. So, clearly there is a strong connection between the development in real estate and the financial markets. The thesis concludes that in line with the natural laws of economics, that an economic upturn is followed by an economic downturn, and that the length of the coming downturn often follows the length of the upturn proportionally. This statement points out that a long downturn could be on its way. Clearly there is a strong connection between the development in real estate and the financial markets. The two follow each other, since the financial markets have become dependant on the square meter prices.

I. INTRODUCTION

Actually recession is when the economy declines significantly for at least six months. The construction industry was undoubtedly one of the hardest-hit by the Great Recession. The real estate sector in India has assumed growing importance with the Liberalization the economy. The consequent increase in business opportunities and migration of the labour force has, in turn, increased the demand for commercial and housing space, especially rental housing.

The sector will remain as a booming sector and more investment is expected in the coming years. Construction

and allied sectors are considered as one of the largest employing sector in India (including construction and facilities management).

Following are the few highlights of the real estate development.

1. India increasingly looked at as an economically viable outsourcing destination
2. Corporate restructuring increasing demand for new buildings, but old buildings in erstwhile CBDs facing high vacancy rates
3. Increasing demand from ITES/BPO/call centre sectors
4. GDP to grow at a sustained rate of 7-8% in FY 2004-2005
5. Built-to-suit finding favour
6. India now ranks 5th amongst 30 emerging retail markets in developing countries

7. 1.1 Objectives of Project

1. Analyse the role and contribution of Real Estate sector to the growth of Indian economy.
2. Study of the trends in the present macro environment and their impact on Real Estate development.
3. Trace the condition of Real Estate Industry in India during recession, comparative study of conditions before and after the onset of recession.
4. Identify the root cause of recession in real estate.
5. Analyze the effects of recession in real estate sector.

II. LITERATURE REVIEW

“A Significant downflow in economic activity lasting more than a few months, which is normally shows in real GDP, real income, employment, industrial production, and wholesale-retail sales”.

Recession is a contraction phase of the business cycle.

According to macroeconomics a recession is a decline in a country's real GDP for two or more successive quarters of a year, so basically for half of the year or more. But recessions are also associated with falling prices, which is also referred to as deflation. But a recession can also be



associated with sharply rising prices, which is called inflation, as long as these sharply rising prices are in a process known as stagflation. If a recession goes on for a long period or is a particularly bad recession then the recession is no longer considered a recession, but it is now an economic depression. According to the study by Todd Wallack, The United States has already slipped into a deep recession that could be the most serious since World War II, said Martin Feldstein, president of the Cambridge group that is considered the official word on economic cycles.

NBER is the official agency in charge of declaring that the economy is in a state of recession and the reason for this is that the NBER actually has a more general framework for judging recessions compared to other groups. According to the NBER a recession is a significant decline in economic activity spread across the economy that lasts longer than just a few months.

The effect of the recession can normally be visible in real GDP, real income, employment, industrial production, and wholesale retail sales. They also tend to think that a recession begins after the economy reaches a peak of activity and ends as the economy reaches its trough. And between the trough and the peak the economy is actually in expansion, which is the normal state of the economy. But the best thing about recessions is that in most cases they are usually short lived and they have actually been rather rare in the past few decades.

FDI In Economic Growth:

All real estate sectors, residential, commercial and retail are currently witnessing huge growth in demand and has attracted more than three times foreign investment FDI in the real estate sector in India would also contribute towards making the sector more organized.

Role Of Government:

The six roles of government in a market economy to prevent recession are:-

- (1) Budget and Taxation for economic year
- (2) Promote effective and workable competition
- (3) Provide for public goods and services
- (4) Ensure economic stability and growth
- (5) Provide for a stable set of institutions and rules
- (6) Adjust for undesired market results.

The various policies adopted by the Central Government, from time to time, were accompanied by initiation of various programmes and schemes.

1. National Slum Development Programme (NSDP)

2. Swarna Jayanti Shahari Rozgar Yojana (SJSRY)
3. Pradhan Mantri Jan-Dhan Yojana
4. Pradhan Mantri Jivan Jyoti Yojana & so on

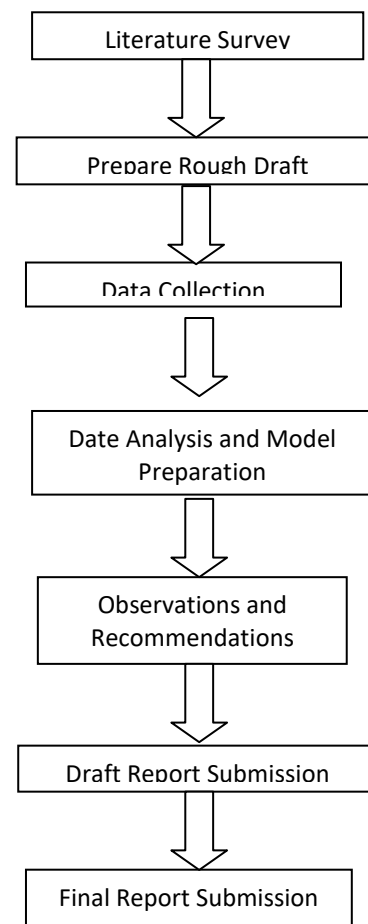
By the Help of these schemes poor poverty line peoples got gainful employment.

III. RESERCH METHODOLOGY

1. METHODOLOGY:

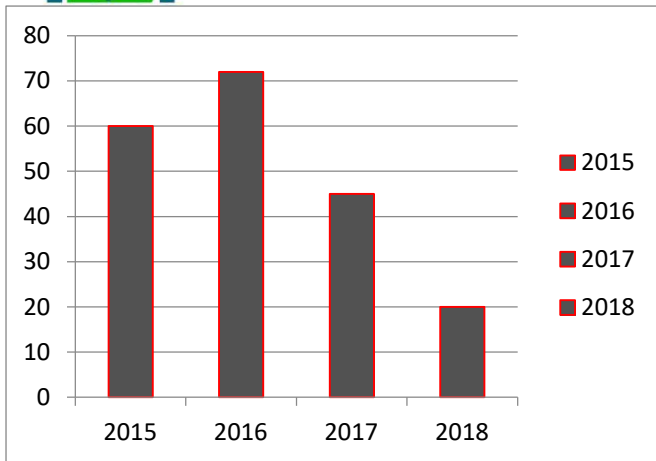
The aim of the study is to predict the next change in business cycle by analyzing the root causes of recession. By doing this the study aims at predicting an early indicative warning to the industry and financial institutions of an impending slowdown and recession

2. FLOW OF METHODOLOGY:



IV. DATA COLLECTION AND ANALYSIS

Data collected from a construction company name as Mantra Properties and a project is “MANTRA MOMENTS” which is located at Moshi (PCMC PUNE).



Analysis Of Chart:- Graph Shows Year vs. Number Of flats sale

In 2015- Sale of flats is 60 nos.

In 2016- Sale of flats is 72 nos.

In 2017- Sale of flats is 45 nos.

In 2018- Sale of flats is only 20 nos till date.

So the above data shows a rise in 2016 as compared to 2015 but from 2016 there is a alternate drop in the sailing of the flat in well organised area like PIMPRI CHINCHWAD MUNCIPLE CORPORATION, MOSHI. So, drop down figures are not just in sailing of flats but there is construction related all activities are affected by share market & oil rates crases.

But government Released the new rules for all business industries for common criteria in Taxes and Clear Documentary on their respective work. so government take the charged and Applied the new rules for public safety and these are as follows;

1. MAHA-RERA AND,
2. GOODS AND SERVICE TAX (GST)

When these schemes are takes the part in every industry after that there is drop in sailing of the new projects because peoples have some idea about these.

So, from the above new rules landlords, builders, developers, real estate agent has faced many problems whichever is directly affect their properties for construction & Saling.

MAHA-RERA (MAHARASHTRA REAL ESTATE REGULATORY AUTHORITY)

RERA act which is launched on 1st may 2017 is expected to bring relief for homebuyers and developers will have to give timely possession for projects. No new launch can be

initiated till the project is registered under RERA act. Many builders and agents have been rushing to register under the act since it is implemented.

The Real Estate Bill, which was passed in May this year, to provide transparency and accountability in the real estate sector. Its objective is to make the consumer acknowledge about the status of building approvals, to enable consumers to make accurate decisions. The bill also aims to take steps to promote affordable housing for everyone. Under the new RERA rules, all projects that are developed on 1000 sq m or more of land have to be registered with the proposed regulator.

Developer need to submit the details of the project like

1. Title of Land.
2. The completion date of the project.
3. Names of the agents and architects.
4. Bank account details
5. The amount collected via sale deeds should not be used for any other activities.
6. Strict penalties will be enforced on developers for any offence committed.

Advantages of RERA for the buyers:

1. Developers need to make timely delivery of the booked office spaces or homes.
2. If not strict compensation and imprisonment can be taken against the developer.
3. The same features promised at the time of registration need to be delivered at the time of handover.
4. If not the builder can be penalized.
5. Specifying the carpet area and not the built in area which is more than the former by at least 20 to 30% is mandatory.
6. Completion of clearance from the government departments is compulsory before selling any house or office space.
7. Separate bank account should be opened for each of the projects promoted by a developer.

Disadvantages of RERA:

1. The rules and regulations passed in the new bill are not applicable for the ongoing projects or projects that are held up due to some clearance issues.
2. Government agency delay in approval and clearance may hinder the timely delivery of products.
3. Small developers with projects less than 1000 sq.m. do not come under the purview of this act and registration with the regulator is not mandatory for these.

4. Without clearance projects cannot be launched and so launching of new projects may get delayed.

V. CAUSES, EFFECTS AND INDICATORS

.CAUSES:

1. Excessive construction activities and construction where demand is not there.
2. Credit crunch-shortage of finance
3. Fluctuation in the rate of oil prices
4. Rise in Interest Rates
5. Increase in rate of unemployment

INDICATORS:

1. Demand is declining and loans are going bust.
2. World trade volume growth
3. India's oil imports were declining and international oil prices were rising
4. Lending money to borrowers irrespective of their background, returning capacity & poor credit history.
5. Demand is declining.

EFFECTS:

1. Decline in percentage of household owning homes
2. Foreign investors pulling out their money from Indian markets
3. Rise in prices of crude oil, petrol, diesel, LPG in India and Rise in inflation.
4. Reduction in Income and Reduction in Consumer Spending
5. Increase in job losses and decrease in purchasing power and Decline in real estate and construction jobs.

VI. CONCLUSION

Real estate is a unique asset class in many ways: while local in many respects, it also has national and regional influences and implications. It is a highly emotionally charged subject of widespread interest and participation. Real estate trends, therefore, may have significant impact on individual and daily lives. Real estate prices themselves can be driven by a number of factors including interest rates, income growth, demographics, location, returns on alternative investments and inflation. Of late, interest and mortgage rates have tumbled to their lowest levels in decades, pushing house prices ever higher. When prices are high, it is clear that real estate investments can generate considerable wealth, but we should not forget that things can go the other way as well. That said, real estate cycles do tend to be fairly long in duration and prices can often move to extreme levels before

correcting. Upward extremes – known as “bubbles” in truly heated markets – can occur in any asset market (stocks, bonds, real estate, fine art) and tend to have several defining characteristics, including: parabolic price increases (i.e., that look like a hockey-stick when depicted in a time series chart), excessive valuations, and buoyant investor optimism whereby rational people extrapolate recent trends.

Our approach focused on key indicators and drivers of the real estate market and factors that drive the real estate cycle: interest rates, the “rent or own” decision and demographics.

VII. REFERENCES

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