



IMPACT OF URBAN DEVELOPMENT REGULATIONS & SPATIAL PLANNING APPLICATIONS IN THE REAL ESTATE SECTOR

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Abstract: Today, the real estate sector has become visible and dominant in almost all Indian cities and can be defined as that segment of business enterprise engaged in production financing, marketing, and property management. The three economic sectors that influence real estate value are

- User Markets – the demand side
- Capital markets – the supply side and
- Government (urban development policies and legislative mechanisms)

Government can affect how the user markets and capital markets interact through taxation, regulations, the provision of services and infrastructure, subsidies, and other ways. Government intervention directly affects urban land supply, demand, and price through laws, infrastructure spending, and taxation. De facto, some policies have the effect of assigning land administratively, ignoring costs and demand, and evading market dynamics. Although land laws are essential to the efficient operation of markets, they can seriously impede economic growth if they are badly conceived.

India's artificial urban land shortage is a result of the cumulative impact of numerous layers of poorly thought-out national, state, and municipal policies. Therefore, compared to Indian household income, urban land prices are unnaturally high, and household floor space consumption is lower than it would be if the regulatory framework were changed. Several rules also distort the way cities are laid out. Some restrictions have a tendency to "push" urban growth outward by unfairly restricting the amount of floor space that may be constructed in centrally situated places and making land recycling challenging. As a result, commutes are lengthened, operating public transportation is difficult, and urban infrastructure must be expanded more than it would have if land availability had not been constricted.

Index Terms – Introduction, Literature review, Conclusion.

I. INTRODUCTION

India is rapidly urbanizing in form and features and from within. While the metropolises are observing a fast-evolving skyline with tall skyscrapers and iconic architecture, the smaller towns and cities are witnessing an unprecedented surface metamorphosis through the expansion of roads, flyovers, and open areas. According to United Nations, India has the highest rate of change in the urban population among the BRIC nations, which will remain above 2% annually for the next three decades.

At this rate, an estimated 854 million people will live in Indian cities by 2050, a figure of the combined population of present-day USA, Brazil, Russia, Japan and Germany. Thus, the time is right for Indian real estate to upscale itself for the coming decade to meet the challenges posed by this rapid urbanization.

The residential real estate industry has witnessed stupendous growth in the past few years owing to the following reasons:

- Migration towards urban areas
- Ample job opportunities in service sectors
- Easy availability of finance
- Growing income levels

Demand for houses has increased considerably while the supply of houses could not keep pace with demand, leading to a steep rise in residential capital values, especially in urban areas. Broadly, the residential real estate industry can be divided into four growth phases.

Phase I (2001-2005) was an initial growth phase with stabilizing residential real estate prices following the global recovery post the "dot com" bust and the 9/11 terrorist attacks in New York. At the same time, there was steady growth in Indian economic activity, remarkable recovery in the IT/ITES industry, growing urbanization and a rising trend towards nuclear families.

Phase II (2006-2008) was a high growth phase where high demand for residential real estate led to a doubling of housing prices. Demand rapidly increased due to India's growing population, urbanization, rising disposable incomes, growing middle class and youth population, low-interest rates, fiscal incentives on interest and principal payments for housing loans and heightened customer expectations.

Phase III (2009-2010) witnessed a substantial slowdown and part recovery in demand because of the global economic downturn, which led to a decline in affordability and tight liquidity. The retreat of various real estate investors, accompanied by a slowdown in the capital markets, has resulted in oversupply and falling prices.

Phase IV (2011-2014) is expected to remain a consolidation phase after a slowdown. Demand is expected to remain strong, with capital values witnessing a modest rise. This period is expected to witness a substantial housing supply, especially in urban areas.

Despite the stupendous growth witnessed in the past ten years, a substantial housing shortage is still prevalent in India. According to CRISIL Research, the housing shortage in India is estimated at 78.7 million units at the end of Phase II.

“Housing shortage in urban areas will continue to rise owing to migration towards urban areas and increasing trend of nuclear families. Housing shortage in urban areas is estimated at 19.3 million units at the end of 2008, up from 15.1 million units at the start of 2005. Housing shortage in urban areas will likely touch a whopping 21.7 million units by the end of 2014”.

An increase in the shortage of housing units and the growth of the real estate industry at the same time are factors very clearly indicative of the existing mismatch at the policy and regulatory levels, which needs immediate attention if this stark gap needs to be bridged.

Role of government in real estate:

The local government has the most influence on real estate markets.

- It affects the supply and cost of real estate through zoning and land use regulations, fees on new land development, and restrictive building codes.
- It also affects rental rates through the assessment of property taxes.
- Finally, local government affects the supply and quality of real estate by providing community infrastructure and building codes.

Central government influence:

The central government influences real estate through income tax policy, housing subsidy programs, disclosure laws, FDI and housing finance initiatives etc.

State government influence:

The state government affects real estate by licensed real estate professionals, establishing statewide building codes, creating fair housing and disclosure laws, and numerous housing-related subsidies for low and moderate-income households. In addition, the state may protect some environmentally sensitive lands from development.

Government influences the interaction between the user markets and capital markets through tax policy, regulations, provisions of services and infrastructure, subsidies and other means. Government intervention – in the form of regulations, infrastructure investments and taxation – directly impacts urban land supply and the demand for land, and therefore the price of land and housing. De facto, some regulations have the effect of allocating land administratively, ignoring demand and costs and bypassing market mechanisms in allocating resources. Land regulations are necessary for the healthy functioning of markets, but when poorly designed, they can constitute a severe drag on economic development.

Thereby, a strong and urgent need exists to carry out a critical in-depth examination of the various regulatory aspects impacting the land development process in the real estate sector, to identify the loopholes and come up with reforms and modifications that will help enable a more efficient mechanism of delivering urban serviced land, thus provide the much necessary impetus to the housing and residential real estate sector.

II. LITERATURE REVIEW FINDINGS

2.1 Real Estate:

The term —Real Estate consists of the physical components of land, as nature provided it and all manufactured permanent and fixed improvements, on and to the land, which have been added below or above the surface of the Earth or which have affected the utility of a given parcel of land. It includes the land and everything directly and permanently attached to it. In brief, real estate is defined as land, including the air above it, the ground below it, and any buildings or structures on it. It is also referred to as realty.

The activities of the real estate sector encompass the housing and construction sectors. It covers residential housing, commercial offices, trading spaces such as theatres, hotels and restaurants, retail outlets, industrial buildings such as factories and government buildings.

The prominent players in the real estate market are the landlords, developers, builders, agents, tenants, buyers etc. The real estate sector in India has assumed growing importance with the Liberalization of the economy. The consequent increase in business opportunities and migration of the labor force has, in turn, increased the demand for commercial and housing space, especially rental housing. The real estate sector is a significant employment driver, the second largest employer next to agriculture. This is because of the chain of backward and forward linkages that the sector has with the other sectors of the economy, especially with the housing and construction sector. About 250 ancillary industries, such as cement, steel, brick, timber, building materials, etc., depend on the real estate industry.

Real property, commonly known as real estate consists of land, improvement and appurtenances. Land includes the earth 's surface, the natural growth and timber attached, and the minerals lying beneath it. Improvements are the buildings and other structures on the land. Appurtenances are the incidental rights and the interests that attach to and pass with the land, such as the right of way and easements. Air rights over the land are also generally deemed to be real estate. It involves purchasing, selling, and developing land and residential and nonresidential buildings.

The activities of the real estate sector encompass the housing and construction sectors. Real estate or immovable property is a legal term (in some jurisdictions) that encompasses land along with anything permanently affixed to the land, such as buildings. Real estate is often considered synonymous with real property (also sometimes called reality), in contrast with personal property (also called personality). However, in technical terms, real estate refers to the land and fixtures, and real property is used primarily over real estate.

The term real estate and real property are used primarily in common law, while civil law jurisdiction refers instead to immovable property. In law, the word accurate means relating to a thing as distinguished from a person. Thus, the law broadly distinguishes between real property (land and anything affixed to it) and personal property (e.g., clothing, furniture, money).

2.2 Real Estate scenario in India:

India Real Estate is the second largest industry next to agriculture in terms of its contribution to the gross domestic product (GDP) and the employment generation.

Moreover, its contribution to the country's GDP is expected to increase only in future years. According to the BRIC report, India is among the four countries (the other three being Brazil, Russia and China) that are likely to achieve a much faster growth rate in property development and housing construction activities compared to the UK and US real estate markets. The BRIC report has also projected a higher real estate investment over the next five years. Some of the leading real estate developers that have made a mark in India include corporate names, such as Sahara India, Aditya Birla, Tata, Godrej and Reliance Group, to name a few. Apart from that, a whole list of real estate developers has given a new dimension to housing and infrastructure development and placed India on the map of World real estate. Some of these builders and property developers include the names DLF, Emaar MGF, Ansals, Raheja, Omaxe, Shipra, Arun Dev, Eros, JayPee, TDI, Prestige, Parsvnath, Vatika, Unitech, Vipul, Eldeco, Mapsko, Triveni and Kumar, to name just a few.

According to the Mckinsey report, the average profit from construction in India is 18%, double the profitability for a construction project undertaken in the US. The housing sector contributes five percent of the country's GDP. In the next three, four, or five years, this contribution to the GDP is expected to rise to 6%. According to 'Housing Skyline of India 2007-08', a study by research firm Indicus Analytics, there will be a demand for over 24.3 million new dwellings for self-living in urban India alone by 2015. As a result of this, this real estate sector is likely to throw colossal investment opportunities. An estimated US\$ 25 billion investment will be required over the next five years in urban housing, says a report by Merrill Lynch. As far as commercial property is concerned, the fast-growing Indian economy has a cascading effect.

The growth will propel the demand for commercial spaces and space for modern offices, warehouses, hotels and retail shopping centers.

Moreover, the information technology (IT) industry and organized retail lead the demand for commercial office space. For example, it is estimated that IT and ITES alone is estimated to require 180 million sq. ft. by 2010.

Similarly, the organized retail industry will likely require an additional 220 million sq. ft. By 2010. This considerable demand will spill over to all parts of urban India. Lease rentals have been picking up steadily, and strong demand for quality infrastructure. A significant demand will also likely be generated as the outsourcing boom moves into the manufacturing sector. With the economy surging ahead, the demand for all segments of the real estate sector is likely to continue to grow. The Indian real estate industry will likely grow to US\$ 90 billion by 2015.

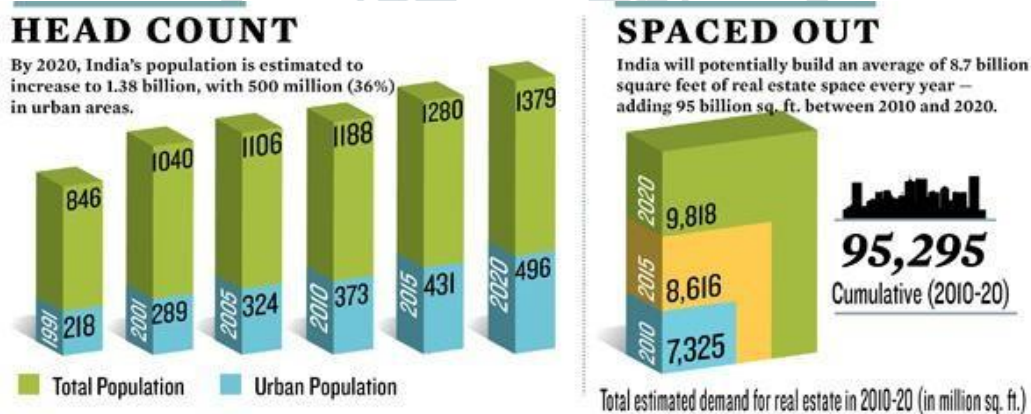


Figure 8: Estimated increase in real estate space in India

2.3 Characteristics of the Real Estate market in India:

- Today's real estate industry is the second largest industry in terms of employment in India, even though it is not considered at par with IT and other leading industries. Over the past few years, the real estate industry has grown unprecedentedly. The development has continued growing both vertically and horizontally.
- Some recent trends can be observed; firstly, significant residential development occurs in the distant suburbs of metro cities.
- There has been a significant change in the working of the industry, the aesthetics of structures, the finishes and more over there has been an increase in the investment levels.
- Real estate markets around the world are becoming more and more transparent.
- Property investment is a serious alternative to other forms of investment.
- With interest rates nose-diving and the stock market not showing any signs of recovery, investment in real estate has begun to look more lucrative. Property investors can expect yields of 12-14% p. a. on their investment, which is noteworthy.
- With the advent of globalization, rapid growth in the Indian economy has opened up a fascinating array of opportunities and possibilities in the real estate market. The advent of multinational occupiers, the global outlook of Indian corporate and the consequent change in how people work and live have necessitated a comprehensive review of property ownership and occupation.
- As an owner, investor or occupier in real estate, one would naturally be keen to formulate a strategy for investment or occupation best suited to the needs. Thus, there is a need to place real estate ratios on a standardized platform that can be easily accessible. Indexing is a way that would help to understand the Indian Real Estate Scenario.

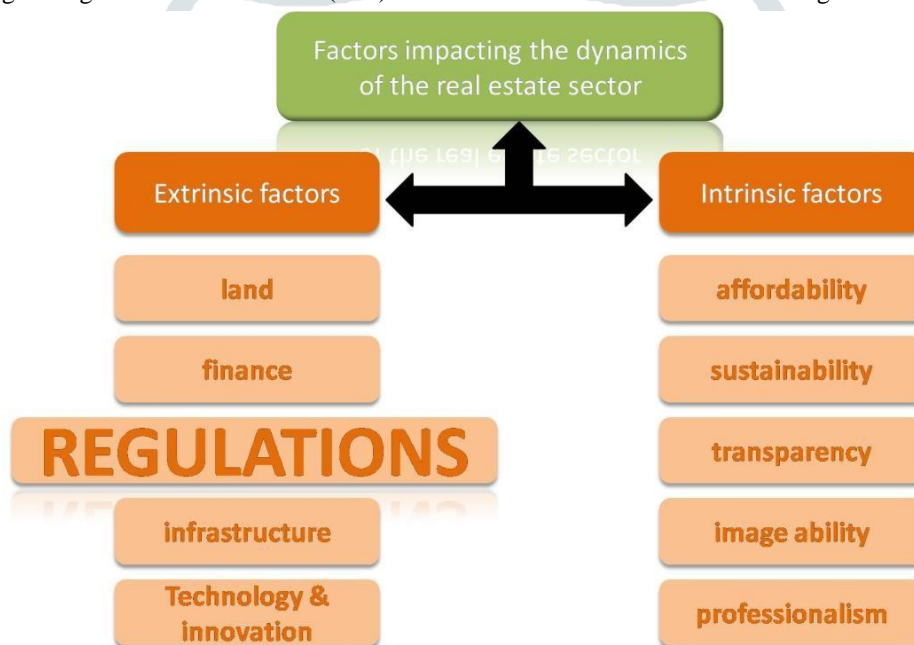
2.4 Changing Role of the Real Estate Developer:

Real estate plays a crucial role in the Indian economy. It is the second largest employer after agriculture and is slated to grow at 30% over the next decade. The Indian real estate market is expected to reach \$180 billion by 2020.

The housing sector alone contributes 5-6% of the country's GDP. Retail, hospitality and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs.

In India, real estate developers:

- Real estate developers play a leading role in the industry, bridging the gap between construction ability and the customer's needs. Developers offer value in terms of design, cost, functionality and location.
- They work hard to absorb international trends, analyse the customers' expectations and deliver quality realty products based on their experience.
- Fulfil a critical need for infrastructure to serve a growing economy in areas like housing, office space, retail and entertainment, among others. Responding to an increasingly well-informed consumer and keeping in mind the globalization of the Indian business outlook, real estate developers have also shifted gears and accepted fresh challenges.
- *Changing role*
- The most marked change has been the shift from family-owned businesses to professionally managed ones.
- In meeting the growing need for managing multiple projects across cities, developers are investing in centralized processes for the source material, organizing human resources, and hiring qualified professionals in areas like project management, architecture and engineering.
- The growing foreign direct investment (FDI) flow into Indian real estate encourages increased transparency.



Developers, in order to attract funding, have revamped their accounting and management systems to meet due diligence standards.

- Customers have also benefited from a hassle-free accounting system.
- The modern real estate developer is keenly informed about market trends, basing his information on market research and rich experience.
- Young business leaders, armed with management degrees and international exposure, have also added value to this positive trend.

III. RESULTS AND DISCUSSION

3.1 Issues and constraints:

Impact on land availability and land price – in the real estate sector

- Government intervention – in the form of regulations, infrastructure investments and taxation – has a direct impact on urban land supply and the demand for land and, therefore, on the price of land and housing
- Land regulations are necessary for well-functioning markets but can seriously drag economic development when poorly designed.
- In India, the combined effect of multiple layers of poorly conceived central, state and municipal regulations contribute to an artificial urban land shortage. As a result, urban land prices are generally high in India's household income, and households consume less floor space than they could afford if the regulatory environment were reformed.

Impact on the delays– in the real estate sector:

- High stamp duty rates.
- The multitude of statutory approvals involved.
- Time is taken for the approvals required to cause significant delays in the process of any real estate Development project.
- Time is taken for preparation, sanctioning and reviewing of development plans and master plans at the macro level.
- Time is taken for preparation, sanctioning and reviewing of zonal plans or town planning schemes at the micro level.

Miscellaneous impacts– in the real estate sector:

- Some regulations harm the spatial structure of cities. By unreasonably reducing the amount of floor space built in centrally located areas and making land recycling difficult, some regulations tend to “push” urban development toward the periphery. As a result, commuting trips become more prolonged, public transport becomes challenging to operate, and urban infrastructure has to be extended further than what would have been the case if land supply had been unconstrained.
- Many regulations have the effect of rendering construction unaffordable for a large part of the population. As a result, many households and firms build illegally and consequently have weak property rights that cannot be used to obtain traditional financing.
- Some regulations are responsible for an increase in corruption. Some regulations encourage corruption by making urban development financially unfeasible in areas with high demand for commercial or residential space. The corruption is compounded by the fact that nobody sees any social benefit in enforcing the regulation (contrary to environmental regulations where the social benefits are usually apparent to all).

3.2 suggested reforms & modifications:Level and Nature of Government intervention

- Government intervention in the form of regulations and infrastructure investments should not hinder the urban land supply mechanism but should regulate haphazard growth by systematically supplying urban serviced land. This will ensure serviced land availability and help bridge the housing demand-supply gap faster.

Rationalization of Government regulations regarding taxation

- Government regulation regarding land taxation like stamp duty and registration fees should be rationalized to ensure a fair and transparent legal transaction process and clear title availability.

Simplification of Land regulations regarding land use and conversions:

- Land regulations regarding land use and conversions are a significant hurdle in a real estate project, and the process of getting statutory approvals needs simplification. The more simplified the process, the easier it is for the government to regulate and the developers to deliver on time. As a result, the combined effect of multiple layers of poorly conceived central, state and municipal regulations often contribute to an artificial urban land shortage that can be dissolved.

Timely up-gradation of the zoning regulations

- The zoning regulations need to be reviewed on time and updated every three years to keep pace with the changes in the developmental activities. Outdated regulations result in much time being wasted in litigations.

Speeding up the sanctioning process through de-centralization:

- The time taken for preparation, sanctioning and reviewing development plans and master plans at the macro level and the time taken for preparation, sanctioning and reviewing zonal plans or town planning schemes at the micro level needs to be reduced to ensure a fast-paced development and growth of cities. The system needs de-centralization for the sanctioning process and hence more power to the local urban development authorities responsible for implementing these planning proposals.

Expected impact of reforms:

The careful review and reforms of the abovementioned regulations would result in a lower cost for urban development and housing. An additional benefit will be a more efficient spatial organization for cities. Specifically, the expected outcome of regulatory reform can be summarized as follows:

- A More compact city, more efficient land use. No enclaves of under-use or unused land; more efficient use of existing primary infrastructure.
- Increase the share of the housing stock supplied by unsubsidized formal private sector developers and decrease illegal subdivisions and slum areas.

- Decrease in trip length due to more compact cities and more intense land use in the Multiple CBDs of Ahmedabad city (less dispersion of employment). A more intensely used CBD area allows a better transit efficiency and, therefore, should increase the urban air quality in the long run.
- Increase in floor space consumption per person for both residential and business use. This should result in an increase in welfare for households and an increase in productivity for firms.
- Average urban population densities are likely to stay constant as more efficient land use and higher FSI are likely to be balanced by higher floor consumption.
- Because of an increase in the number and transparency of transactions, In the long run, possibility to convert property tax progressively from an area base to an ad valorem base. The ad valorem property tax constitutes an incentive for the local government to keep land at its best and higher use.
- Finally, by reducing the difference between what is allowed and what is financially feasible, land use reform should significantly reduce the opportunity for corruption.

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