

A Critique View- Impact of Demonetization on Real Estate

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Abstract:

Demonetization hit hard people and sectors both, although short-lived impact were not as one expected people had to face many inconvenience. It had hampered growth rate of various industries especially real estate where cash flow needs to be smooth in order to run things flawlessly. It had caused abrupt stoppage of many projects resulting in creating chaos between migrant workers who lives on daily wage system.

This study focuses on the impact of demonetization on real estate sector and brining in light the critique opinions that experts has about this sudden step, which has hampered economic conditions of many sectors and normal people of India.

Keywords: *Demonetization, Real Estate, Banking, Construction, India, Economy*

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Introduction

According to Oxford dictionaries “Demonetization” by definition means stripping off of a currency from normal flow i.e. a typical withdrawal of a note, coin, or precious metals from use as legal tender. It is sometimes taken as an effort to stop counterfeiting of the current banknotes.

The word demonetization comes from a French word “demonetiser”.

There are various reasons for demonetization, some of it is listed below:

- To fight the inflation.
- In order to beat the corruption.
- To eradicate the counterfeit currency from market.
- To daunt cash system

The instant effect of demonetization bound to affect the economy is thought to be probably short lived. On the other hand the long term effects is thought to be a positive one.

History of Demonetization

2016 Demonetization in India was nothing new it had already taken place six times:

TIMELINE of INDIA	
YEAR	EVENT
1938	RBI Printed 10,000 Notes
1946	Demonetization of 1000 and Higher denomination bank notes
1954	Remonetized 1000, 5000, 10,000
1978	Curbed 1000, 5000, 10,000/-
1987	500/- Banknotes introduced
2000	1000/-Banknotes came back in circulation.

India do not stand alone in withdrawing denomination, many other countries have witnessed demonetization in past, and all the countries to impose demonetization

Had common objective i.e. to curb the corruption and black money.

Following is the list of few countries that have employed demonetization in history.

Countries that had done demonetization		
COUNTRY		RESULTS
Nigeria	1984	Economy Collapsed
Soviet Union	1991	Economic system got essentially Crushed
Ghana	1982	People started to turn towards foreign currency
Myanmar	1987	Led political disputes because of which thousands of people died
North Korea	2010	Miserably failed
Australia	1996	Success
Zimbabwe	2010	Failed
Zaire	1990	Failed
USA	1969	Success
Pakistan	2015	Messed Up
Germany	1923	Inflation Fell

Effect of Demonetization on real estate sector in India

The drive of demonetization usually effects and has impact on business directly or indirectly, but the major impact can be seen on small businesses where cash transaction takes place on daily basis. Or on real estate.

Various sectors that gets effected by demonetization is usually:

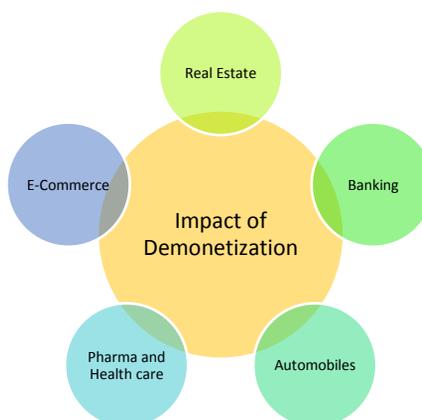


Fig: 1 showing impact of demonetization on various sectors

In this study we will focus on Real Estate only. Gambhir suggested in study-“Demonetization impact on various sectors” that demonetization can have both positive and negative impact depending on the type of industry. But in Indian scenario different experts has different opinions.

Sridevi suggested that in the fourth quarter of the year 2016 negative growth of -9% has been projected and the sales value dropped to 44%, whereas new launches had fallen by almost 61% year on year during the same time period.



Fig: 2 Report by Knight Frank India

On the other hand opposing to the general predictions an article published in Economic time reflected another story, it stated the report by RBI (Reserve Bank of India) after the demonetization Housing price index showed a growth of approximately 2.3%. From 234.9 for second quarter of 2016-17.

Quarter	Q2.2016-17	Q3.2016-17 (P**)	Difference	Variation (%)
MUMBAI	226.5	235.8	9.3	4.1
DELHI	314.9	314.6	-0.3	0.1
BANGALORE	220.1	225.1	5	2.3
AHMEDABAD	214.1	217.8	3.7	1.7
LUCKNOW	311.6	337.1	25.5	8.2
KOLKATA	231.9	240.2	8.3	3.6
CHENNAI*	229.3	224	-5.3	2.3
JAIPUR	127.5	128.7	1.2	0.9
KANPUR	107.8	120.9	13.1	12.2
KOCHI	191.7	182.6	-9.1	4.5
ALL INDIA	234.9	240.2	5.3	2.3

Fig: 3 A report by RBI on Housing Price Index

Some experts blame this growth as the reason for drop in the sales of this sector. Hence, real state remained badly effected for months.

Center for International Relations and Sustainable Development published an articles by Shashi

Tharoor, where he said that all the sales, traders’ income and production were down. In November/December 2016, he further added that construction industry worth eight lakh crore (8 Trillion rupees), had virtually grounded to halt, with the drop of as high as 80-90 percent in income.

Shirley has studied about impact of demonetization in India, where she explained that the major impact of demonetization was seen in areas such as banks, real estate, and it sectors among many.

PHD research Bureau conducted a research and found that 77% of people (real estate owner) reported that this sudden demonetization has finished their businesses, cash being the major component of their transaction.

For construction 74% people under the research responded that demonetization has led to lower collections of advance money, which is required at initial level of construction. It had also struck workers majorly who were unskilled.

On the other hand with recent advancement another study claims that real estate sector has observed growth, with the demand for offices as well as residential spaces. According to DIPP, FDI in real estate has been growing going upward in scale, the sector had received Foreign Direct Investment (FDI) equity inflow of almost US \$ 24.19 billion in April 2000-March 2016.

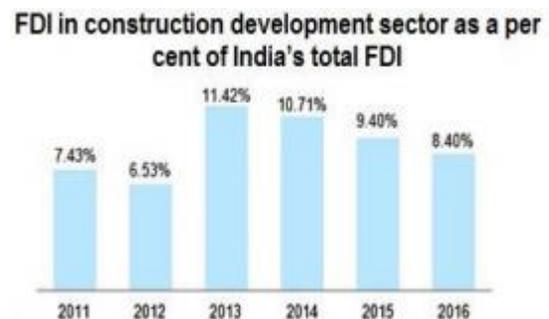


Fig:4 Pic credit Dept of Industry Policy & Promotion.

Effect of demonetization on People

According to a study conducted by PHD Chamber the number of people effected by demonetization were from lower class or middle class, it had effected short term consumption requirements of the general

public basically, as cash was the primary mode of payment of their day to day life.

Remote areas of the country were mostly effected of the people having no bank accounts or any identification proof.

On the study conducted it was found that:

- 58% of Respondent were facing difficulties of high level, because of which they were unable to complete their day to day activity.
- 92% Test respondent alleged that the most important impact of currency crunch was seen on daily needs of the country men, for instance eatables, dairy products and other necessities.
- 89% reported that inaccessibility of cash at banks were the reason for the crisis at hand.

Conclusion

Real Estate sector has been always one of the greatest sensitive sector of economy as it reflects the changes with policy change. It has already been witnessing slow growth and gets directly affected by

tax reforms, demonetization or interest rate cuts. By going through the data and various studies it would not be wrong to say that this (2016) demonetization, has struck people hard and it had hampered growth of many sectors especially real estate. It seems that this sector has become stagnant and no clarity has been obtained regarding money circulation or flow.

One cannot say for how long this stagnancy would remain, but yes for coming years one do not see too much growth. Also real estate sector could be eye witness to a major revolution with cash transaction getting eradicated.

Although there are many upside to it such as:

- Developers can easily avail short-term mortgage from their buyers at normal market price.
- Investments by private equity corporations would accompany positive sentiments all over the market, which will help developer to source funding and put some strength to end user demands.



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