

# Survey of Real Estate Industry in Kolhapur with respect to the Current Scenario of Recession

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## Abstract

The real estate sector has been hit twin challenges of growth recession and high inflation. This double whammy has reduced demand for residential real estate. There are unoccupied residential complexes scattered across Kolhapur city and there are unfinished projects in real estates. These conditions have brought recession in real estate industry. Due to this, the flats are unsold and there is reduction in sale of flats. These demands are fluctuating as per the respective areas. The present situation has also affected the numbers of loans passed and immensely influenced the banking sector.

**Key Words:** Real Estate, Prices, Demand, Supply, Recession

## Introduction

Kolhapur is situated in the south- west corner of Maharashtra, India. It is about 400 km away from Mumbai on the Mumbai-Pune-Bangalore National Highway. Kolhapur serves as the headquarters of the Kolhapur district. Kolhapur is situated on the banks of the river Panchaganga and is the location of the Temple of Mahalaxmi, a Hindu Goddess.

Kolhapur city has changed a lot in last 10 years. Its changing skyline, an improving road network and the realty growth; the positive vibe is perceptible everywhere. No doubt, the city is marching fast on the progress path. After Mumbai and Pune, Kolhapur has the potential to become an important place in the state. Kolhapur is culturally rich. The weather is great and with the famous Mahalaxmi Temple and sites like Panhala around, it is a major tourist attraction. Again, a number of units are coming up at the Five Star industrial estate of the Maharashtra Industrial Development Corporation (MIDC). The IT sector in Kolhapur is also growing. The city has a tremendous potential for IT and even the government has declared Kolhapur as a next IT destination a few years ago. Road condition was a matter of concern earlier. It is no

more so. Kolhapur roads recently got developed with improved road network which have helped the city's development greatly. For water supply to the city, an amount of Rs. 140 Crores has been sanctioned under the Urban Infrastructure Development Scheme for Small and Medium Towns. A project has also been taken up to cleanse and beautify Rankala Lake, another major tourist attraction in the city, is being developed. An ambitious plan is on the cards for the Mahalaxmi Temple development. Rs. 2099 Crores project is prepared and sent to government under Holy City Development Plan. Thousands of devotees from all over the country visit it every year. Kolhapur city has potential to become a model city.

## Population

As per provisional reports of Census India, population of Kolhapur in 2011 is 549,236; of which male and female are 280,366 and 268,870 respectively. Although Kolhapur city has population of 549,236; its urban / metropolitan population is 561,837 of which 286,938 are males and 274,899 are females. Kolhapur has an average literacy rate of 92.17% which is higher than national average of 59.50%. Male literacy is 96.35 % and female literacy is 87.84%. Population Growth doesn't show significant increase as compared to 2001 because the city limits have not expanded since 1977. But it has population Density of 8400 per km<sup>2</sup> which is higher than state as well as district density.

Housing, being one of the basic needs of human being, involves high percentage of financial turn-over per year. The real estate sector has grown to such a monetary size that even minute variations have significant effect on the country's economic development. These variations are dependent on the value of property and various extrinsic and intrinsic factors affecting the same. Land and property are main components of real estate whose

value varies due to demand and supply conditions. Real estate markets differentiate themselves fundamentally from other markets as the values of properties are heterogeneous and vary from similar transactions. This heterogeneity exhibited by the real property values needs to be given due weightage to derive a pattern of variation in the values of properties over a period of time. Careful attention should be given to the dynamics of various factors affecting the value of real estate for full understanding of the determinants of the market value. This paper focuses on the Survey of Real Estate Industry of Kolhapur city and the present recession.

### Recession

Recession is a slowdown or a massive contraction in economic activities. A significant fall in spending generally leads to a recession. In Real Estate, it is directly related with fall in sales of real estate properties. Many of properties in Kolhapur are unsold. Around 50 percent of property is unsold. It varies from number of BHK of flat. About 45% of 1 BHK flats are unsold, about 35 % of 2 BHK flats are unsold, about 50% of 3BHK flats are unsold and 4BHK and penthouses have uneven distribution of sales as they are very less in number and also their sales vary from place to place. On an average total 50% of Real Estate property including 1BHK, 2BHK, 3BHK, and penthouses are unsold in Kolhapur.

### Survey of Builders

In order to find the exact scenario, a survey of 100 builders in Kolhapur was conducted and data pertaining to the sales of flats is collected.

No. of BHK	Total No. of Flats	Sold	Unsold	Percentage Sold
1	715	409	806	57.20
2	1981	1158	823	58.45
3	595	317	278	53.27
4 and above	66	28	38	42.42
1.5	15	8	7	53.33
2.5	13	4	9	30.76
3.5	4	2	2	50

The interpretation of the data reveals that the maximum number of flats is of 2BHK and 1BHK. Out of 2BHK flats, 58.45% of flats are sold. Whereas, 1BHK flat sale is a bit less and is around

57.20%. 3BHK flats are having less demand with sales of 53.27% and demand for 4BHK flats is negligible with sales of around 42.42%. 1BHK flats are having equal demand but their numbers of units are less. Hence, around 50% of flats in Kolhapur are of 2BHK and has maximum demand.

The sale of flats is directly connected with their rates or prices, in turn the budget of the buyer. As per the survey, people are interested more in buying 2BHK flats than 1BHK flats provided the cost is within their limited budget. If the cost is exceeding their budget, then they try for 2BHK flat in the outskirts of the city with the same budget as the rates are a bit less in outskirt region of Kolhapur.

### Real Estate prices

Kolhapur land rates had drastically changed in last 10 years. In Kolhapur the prices of flats in 2007 were around Rs.1800 to 2200 per sq. ft. Then up to 2011 the rate went up to Rs. 2800. Then there was a surge up to Rs. 3500 to Rs. 4500 up to year 2014. Then the rate is almost constant by now. However, the prices of flats are changing from area to area. Highest rate in Kolhapur city is in Shivaji Park which is up to Rs. 7000 per sq. ft. whereas least rate is in outskirts of Kolhapur city which vary from Rs. 2800 to Rs. 3200. Within city limits, mostly in E-ward of Kolhapur, rate varies in between Rs.3500 to Rs. 4500.

### Reasons for recession

There are various reasons for recession in Real Estate market. In last 10 years, number of constructions has increased in large amount. Thus, there is large number of quantities of flat available with builders. However, population rise is not that significant because the city limits have not expanded since long. The quantum of migration is quite less in Kolhapur. Hence, the number buyers are just limited. In Kolhapur around 70% people are in middle class category and lower middle class category. Their budget of flat is usually less and they usually move towards low budget houses and availability of low budget houses is very limited. Also, people want homes in or around city. All these things together are affecting the demand-supply ratio to a great extent. That's why the builders are facing acute financial problem due to their unsold flats. The basic reason for recession is unplanned construction and ineffective planning.

Also, the housing loans are not that easily available. Banks require mortgage securities and EMI are unaffordable if it is more than Rs. 12000. One of the important factors for recession is that investments had completely stopped. Between 2009 and 2014 huge number of investors did investments due to sudden appreciation of prices. But now even that had completely stopped or just very less as compare to previous years. The investors are preferring cities like Pune or Mumbai for their investments as appreciation value for their investment is much higher than Kolhapur.

### Conclusion

Main factor for surviving in this period of recession is to know the city needs. According to this survey, people usually intend to buy 2BHK flats. Approximately 60% of 2BHK flats are sold. Also, maximum number of flats is of 2BHK. People with low income who cannot afford 2BHK flats wish to buy 1BHK flats. But we cannot say its demand is more because approximately 45% of 1BHK flats are unsold as people usually tends less towards 1BHK flats. So, if proper designing of 2BHK flats with limited budget is done then the demand can rise. 3BHK flats are also in demand for upper middle class and high income group category but their demand is limited and so the constructions are also limited. Their demand is more in posh localities of Kolhapur and it is a bit less in outskirts of Kolhapur. 4BHK and penthouses have less or no demand at all. The people from high income group, who already have premium houses may buy it just for investments.

Considering the above facts,

- (i) The builders should now plan their business as per the demand-supply ratio.
- (ii) More efforts should be exerted for constructing and providing 'affordable houses' than luxury apartments.
- (iii) The prices of flats should be brought down to encourage the prospective buyers.
- (iv) The builders should provide more amenities at lower rates to attract the customers.
- (v) The banks should simplify the process of housing loans.
- (vi) The rate of interest on housing loans should be reduced to encourage buying as the banks are now having substantial cash as a result of demonetization.

(vii) There should be collective efforts towards increasing the present city-limits, so that the Municipal Corporation can receive some grants for development from various schemes of Central Government such as Smart City which will attract the investors and thus the buyers.

(viii) The exorbitant land costs should be reduced by the land-owners.

(ix) The authorities should simplify the procedures/permissions, so that the builders can develop their projects in minimum possible time and cost.

(x) The builders should consider the norms of 'Pradhan Mantri Awas Yojana' while planning their projects so that the people from lower middle class will be encouraged to buy affordable homes.

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