

Analyzing the Behavioral Patterns of Individuals in the Context of Demonetization and its Impact on the Real Estate Sector.

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ABSTRACT:

This research paper explores the multifaceted impact of demonetization on the real estate sector, a pivotal component of the global economy. India's bold and unprecedented demonetization move in November 2016, involving the invalidation of high-denomination currency notes, aimed to curb black money, promote digital transactions, and formalize the economy. Its repercussions, particularly in the real estate domain, have been both immediate and enduring.

The study employs a mixed-methods approach, incorporating quantitative data analysis and qualitative insights from industry experts, policymakers, and real estate stakeholders. It delves into several key dimensions of the real estate sector, including property prices, demand and supply dynamics, investment patterns, and the role of technology in shaping the post-demonetization landscape.

Findings indicate a nuanced impact on the real estate sector. While demonetization initially led to a drop in property prices and transaction volumes due to reduced liquidity, it gradually stimulated a shift towards transparency and formalization. The adoption of digital payment platforms and the implementation of the Real Estate (Regulation and Development) Act, 2016 (RERA) further catalysed this transformation. These changes, in turn, affected the behavior of investors, developers, and homebuyers.

Furthermore, this research explores regional variations in the impact of demonetization, shedding light on how different states in India experienced varying degrees of disruption and recovery in the real estate market. It also examines the role of government policies and interventions in mitigating the challenges faced by the sector.

In conclusion, this research paper provides a comprehensive analysis of the impact of demonetization on the real estate sector, emphasizing its transformative influence on the industry's structure, practices, and perceptions. The study contributes to a deeper understanding of the broader economic implications of demonetization and offers valuable insights for policymakers, investors, and stakeholders in the real estate sector, both in India and globally.

1. INTRODUCTION:

The real estate sector is an indispensable component of the global economy, encompassing a vast array of activities ranging from residential and commercial property development to construction and infrastructure. Its significance extends beyond mere economic transactions, as it serves as a barometer of a nation's economic health, social stability, and the aspirations of its populace. The dynamic nature of the real estate sector, with its ability to adapt to changing economic and societal circumstances, makes it a subject of perpetual interest to researchers, policymakers, investors, and the general public.

One such transformative event that sent seismic ripples through the real estate industry occurred in November 2016, when the Government of India, under the leadership of Prime Minister Narendra Modi, unveiled a historic policy measure known as demonetization. This audacious move involved the sudden invalidation of the country's two highest denomination currency notes, the INR 500 and INR 1,000 bills, with the primary objectives of curbing black money, promoting digital transactions, and formalizing the Indian economy. While the immediate consequences of demonetization reverberated across various sectors, its effects on the real estate domain were both profound and multifaceted.

This research paper embarks on a comprehensive exploration of the "Impact of Demonetization on the Real Estate Sector," aiming to shed light on the intricate interplay between this policy upheaval and the real estate landscape. The study ventures beyond the immediate aftermath of demonetization, delving into the long-term repercussions and the evolving dynamics within the real estate sector in the post-demonetization era. (The Impact Of Demonetisation On Real Estate In India, 2023)

To achieve a comprehensive understanding of this multifaceted phenomenon, our research employs a mixed-methods approach, amalgamating quantitative data analysis with qualitative insights from industry experts,

policymakers, and real estate stakeholders. It probes into several vital dimensions of the real estate sector, including property prices, demand and supply dynamics, investment patterns, and the role of technology in shaping the industry's landscape. (Almalki, July 2016)

As we embark on this journey through the intricate web of demonetization's effects on the real estate sector, it is crucial to acknowledge that this study extends its relevance beyond the borders of India. The implications of demonetization resonate with the global community, serving as a case study in the broader context of economic policy, real estate market dynamics, and the ever-present pursuit of transparency and accountability in financial systems. (Jadhav, Nov 8, 2023)

This paper seeks to provide a nuanced analysis of the impact of demonetization on the real estate sector, offering valuable insights for policymakers, investors, and stakeholders within the sector itself. By scrutinizing the changes brought about by demonetization, we aim to contribute to a deeper understanding of the broader economic implications of such policy maneuvers, emphasizing the transformation of an industry that plays a pivotal role in shaping the economic destiny of nations.

2. LITERATURE REVIEW:

- MuthuKumar V and Shashi Kumar M- Demonetization had significant repercussions on Bengaluru's real estate market. Property prices saw a notable 7.6% decrease, making homes more affordable for buyers. Additionally, there was a 10% drop in the supply of new properties for sale. Moreover, between 5% and 10% of potential buyers shifted their preference from buying to renting. These changes are critical given that the real estate sector contributes 5% to 10% to the national GDP, underlining its importance for the country's economic growth. (Vairavan, October 2017)
- MuthuKumar V, Shashi Kumar M, Sanjeev Kumar Singh- Demonetization made a significant impact on the real estate sector in India. The government introduced reforms like the Real Estate Regulation Act (RERA), GST, and REITs to increase transparency. While demonetization initially reduced liquidity in the real estate market, these reforms aim to make the sector fairer and more transparent. To ensure this, the government needs to promote cashless transactions and print fewer currency notes in the future. While there may be short-term disruptions like renegotiations and cancellations of agreements, in the long run, these measures will boost efficiency and affordability in the real estate sector, contributing positively to the country's GDP growth. Overall, demonetization and subsequent reforms will have a beneficial impact, provided they are implemented effectively. (Singh, June 2017)
- Ajinkya Bhagwat, Sujaan Masani, Geetha Iyer- After carefully examining different factors and conducting a detailed analysis, it's clear that the real estate sector was already facing significant challenges. Demonetization only made things worse, pushing the sector to its breaking point. As a result, the recovery of the real estate sector has been delayed by an additional 18 months. (Bhagwat, January 2018)
- T.Sridevi, Pragyani Parimita Sarangi- Demonetization can open up new funding avenues for real estate developers. They may need to clean up their financial records to access legitimate funding sources, possibly from Non-banking financial companies (NBFCs) but at higher costs. Developers could also seek short-term loans from existing buyers with agreed-upon interest rates for timely project completion.
- Moreover, investments from private equity firms can boost confidence in the market and help developers secure funding, while the real estate sector may see a transformation with fewer cash transactions and a shift towards online payments through E-wallets, apps, and cards. In essence, demonetization is ushering in a new era for Indian real estate characterized by transparency, reduced corruption, organization, and accuracy. (Kamath, March 5, 2024)
- Abha Babulal Moradia Ph. D. Research Scholar Mba Department G. H. Patel Postgraduate Institute Of Business Management Sardar Patel University Vallabh Vidyanagar- Despite the reasons behind demonetization, it appears that most of its promises haven't been fulfilled. However, there's hope as the real estate market is slowly recovering after a prolonged slump of more than five years. While smaller cities and towns may still face challenges, the introduction of reforms like RERA and REITs is improving the situation. According to Mr. Shishir Bajjal, CMD of Knight Frank, 2016 was a significant year for Indian real estate, and these developments are expected to benefit the industry in the long term. (Moradia, 3 Jun 2021) (Dhanorkar, Nov 21, 2016)

3. OBJECTIVES:

1. Measure Immediate and Long-Term Effects: Assess and quantify the short-term and long-term impacts of demonetization on real estate, including changes in property prices, transactions, and investments.

2. Identify Influential Factors: Identify and analyse the key factors, such as government policies and regional
3. Variations that influenced how demonetization affected the real estate sector.

4. STATEMENT OF THE PROBLEM:

The problem at hand revolves around the need to understand the multifaceted impact of demonetization on the real estate sector, particularly in the context of quantifying both short-term and long-term effects. Additionally, it is imperative to identify the influential factors that have played a pivotal role in shaping these impacts. In light of this, the primary research questions addressed by this study are as follows:

1. What are the measurable short-term and long-term effects of demonetization on the real estate sector, including changes in property prices, transaction volumes, investment patterns, and liquidity levels?
2. What are the key factors influencing the impact of demonetization on the real estate sector, encompassing government policies, regional variations, technological advancements, and market-specific dynamics?

By addressing these questions, this research seeks to provide comprehensive insights into the impact of demonetization on the real estate sector and the underlying factors that have contributed to these effects.

5. IMPORTANCE OF THE STUDY:

Real estate is a dependable investment for both individuals and institutions. Recently, as the real estate sector has grown quickly and its legal framework has improved, more people are interested in knowing how property prices are changing. The housing sector alone contributes 5-6% to the total GDP, so any changes in real estate can have a big impact on the entire economy. After demonetization, there have been significant changes in the real estate sector. This study is essential to understand how demonetization has affected real estate and, in turn, the entire economy. (Alperstein)

6. RESEARCH METHODOLOGY:

I have collected the data by Simple Random Sampling Method.

6.1 Primary Data: The primary data is collected through structured questioners which were circulated to within different groups of people e.g. Developers and Builders, Policy makers and Investors etc. Their responses were collected to analyse the current scenario.

6.2 Secondary Data: The secondary data is collected from different online platforms, journals, research papers, books and articles.

6.3 SAMPLING SIZE: Sample size 100

7. DATA ANALYSIS AND INTERPRETATION:

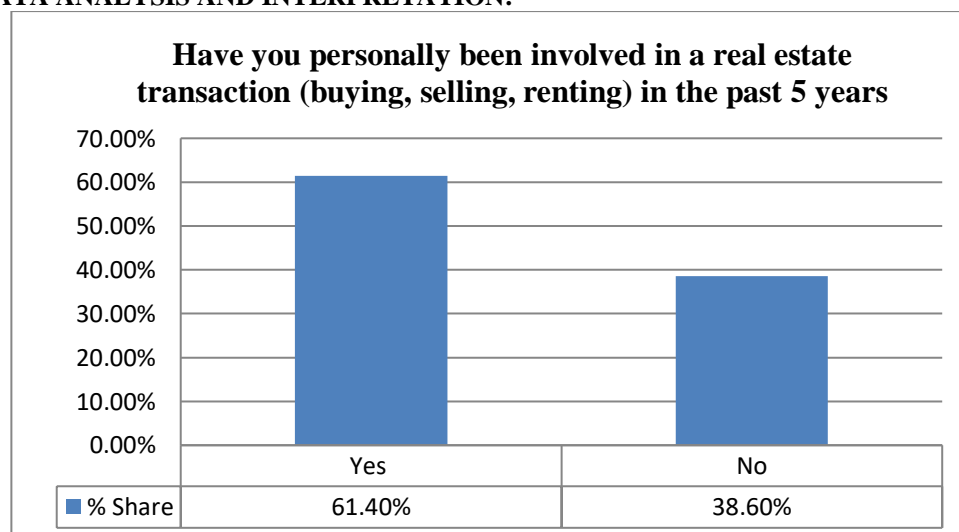


Figure-1 Real Estate Transactions in the Past 5 Years

From the studied survey and the data collected, it is seen that 61% of people are personally involved in the real estate transaction in the last 5 years and 39% of them are not involved.

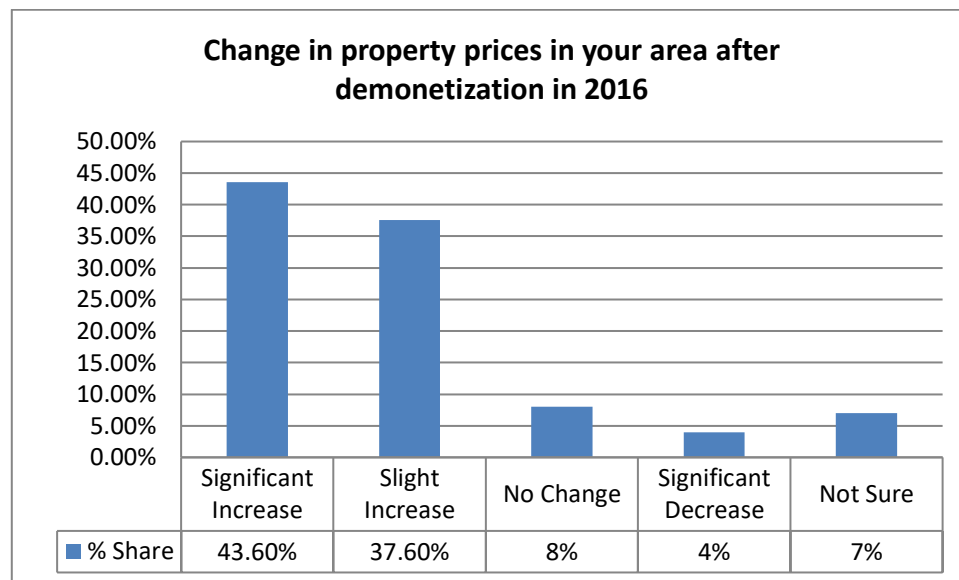


Figure-2 Change in Property Prices after Demonetization (2016) in the Area

It is seen that there is a significant growth in the prices of real estate since from demonetisation. 43.6% population has agreed upon significant increase while 37.6%, have noticed slight increase, 8%, and 4% of population have seen no change and significant decrease while 7% population is not sure.

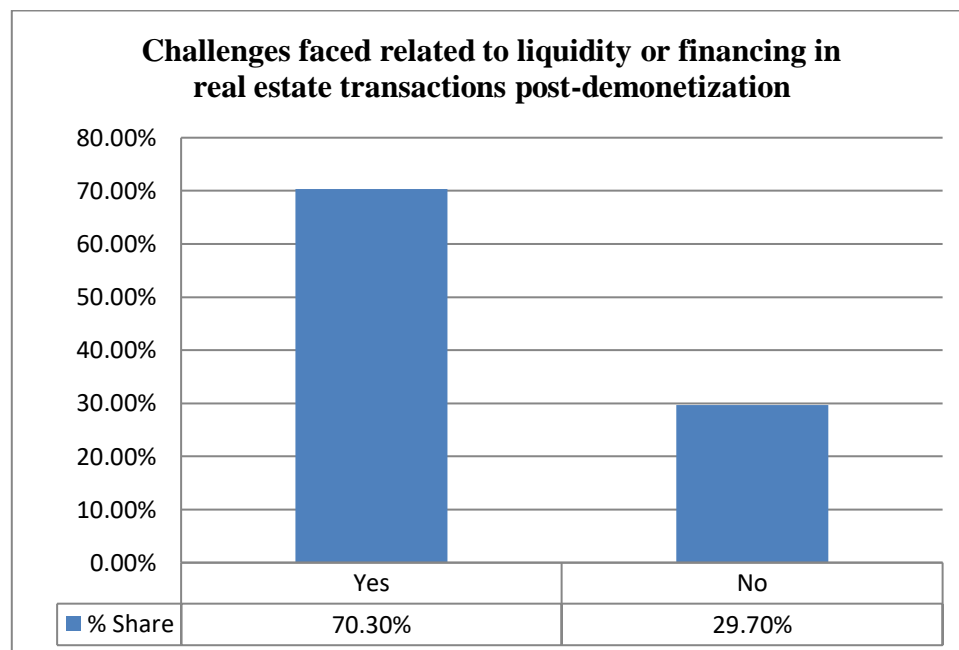


Figure-3 Post-Demonetization Real Estate Financing Challenges

It is seen that 70.3% of total population have faced problems due to demonetization and 29.70% have faced no issue of liquidity due to demonetization in the real estate sector.

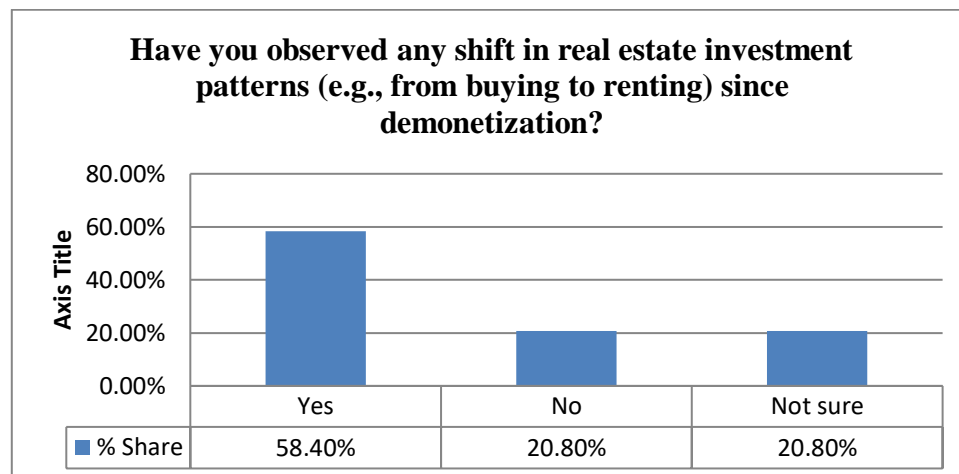


Figure-4 Shift in Real Estate Investment Patterns Since Demonetization

Above chart shows that there is drastic change in the real estate investment pattern since demonetization. Majority of population i.e 58.40% have observed drastic shift while 21% have seen no shift and 20.80% are not aware of the changes occurring in investment pattern in real estate sector.

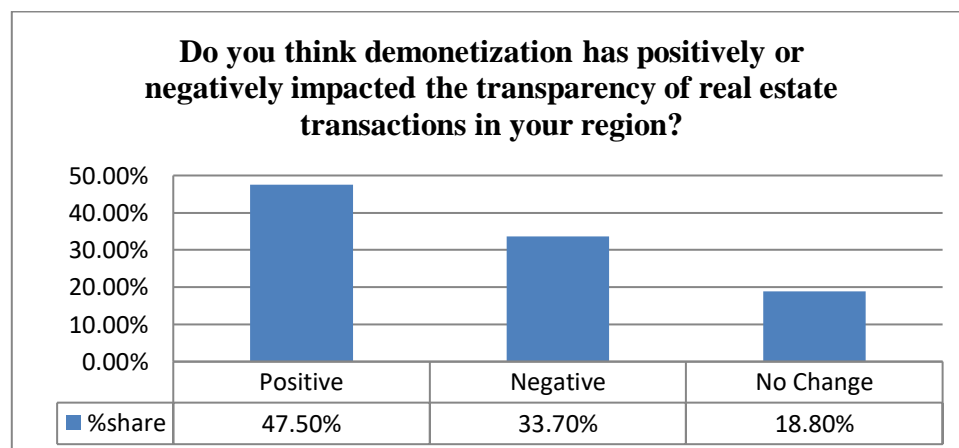


Figure-5 Impact of Demonetization on Real Estate Transaction Transparency

The above chart shows that demonetization has positive impact on the transparency of real estate transaction. 47.50% population think there is positive impact while 33.70% think there is negative impact and 18.80% of population sees no change.

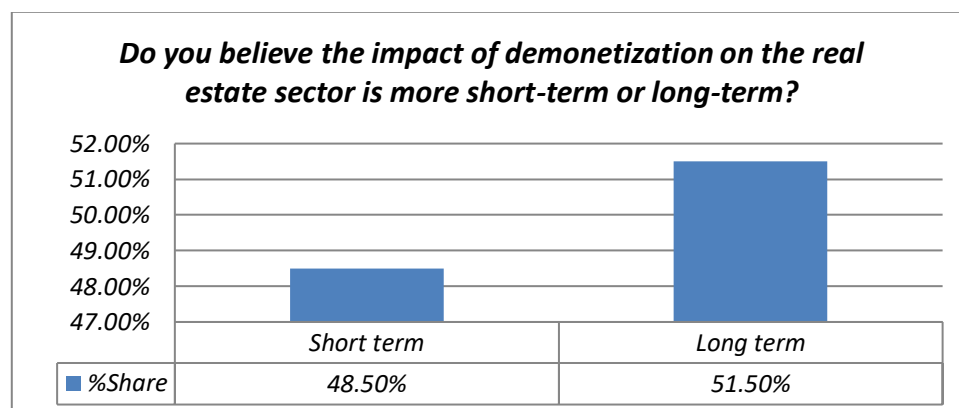


Figure-6 Duration of Impact of Demonetization on the Real Estate Sector

As per the data 48.5% of population feels that demonetization has a short term effect while 51.5% of population feels that it has a long term effect in the field of real estate.

8. FINDINGS:

1. **Personal Involvement in Real Estate Transactions:** A substantial portion (61%) of the surveyed population reported personal involvement in real estate transactions over the past five years, indicating an active engagement within the sector.
2. **Perceptions of Price Fluctuations:** The majority (81.2%) of respondents observed an increase in real estate prices since demonetization, with 43.6% noting a significant surge and 37.6% reporting a slight increase. This suggests a widespread acknowledgment of price escalation post-policy implementation.
3. **Challenges Faced Due to Demonetization:** A significant proportion (70.3%) of respondents' encountered challenges related to liquidity in real estate transactions post-demonetization, indicating disruptions within the sector.
4. **Shifts in Investment Patterns:** A notable shift in investment patterns was observed, with 58.40% of respondents acknowledging drastic changes. This underscores the transformative impact of demonetization on investment behaviours within the real estate market.
5. **Impact on Transaction Transparency:** The majority (52.8%) of respondents perceived demonetization as having a positive impact on the transparency of real estate transactions, reflecting a potential improvement in regulatory compliance and accountability.
6. **Temporal Effects:** Views on the temporal effects of demonetization were divided, with 48.5% perceiving short-term impacts and 51.5% anticipating long-term repercussions. This suggests a nuanced understanding of the policy's enduring implications within the real estate sector.

9. CONCLUSION:

A substantial majority, approximately 61.4% of the survey participants, disclosed their direct involvement in real estate transactions, encompassing buying, selling, or renting properties over the past five years. This collective engagement underscores the significant and active participation of respondents within the real estate sector.

Post the momentous demonetization event of 2016, the study has uncovered a noteworthy trend. A substantial proportion of respondents reported discernible changes in property prices within their respective locales. More precisely, a substantial segment of respondents attested to a significant uptick in property values, while another faction noted a more moderate increase. In contrast, a smaller segment contended that property prices remained unaltered or experienced a pronounced decline. Further, a segment remained uncertain regarding these price dynamics. This diversity of responses illuminates the complex and nuanced impact that demonetization has exerted on property valuations across the surveyed regions.

Another notable revelation from the survey pertains to the financial intricacies faced by respondents and individuals within their social circles in the realm of real estate transactions post-demonetization. This particular inquiry has unveiled that a substantial number of participants, along with those in their networks, encountered challenges tied to liquidity and financing within the context of real estate transactions following the sweeping changes brought about by demonetization. This collective experience underscores the widespread disruption and financial constraints that were prevalent in the post-demonetization era, affecting the fluidity of real estate transactions for a significant cohort of respondents.

The survey has illuminated shifts in real estate investment behaviour among the respondents. A noteworthy contingent of participants has observed a discernible shift in investment patterns, with a propensity towards alternative avenues such as renting, arising since the occurrence of demonetization. This shift indicates a potential reconfiguration of investment strategies within the real estate sector, although it is worth noting that a subset of respondents remained unaffected by any noticeable transformation in investment preferences, and others remained uncertain about such alterations.

In evaluating the impact of demonetization on transparency within real estate transactions, the survey findings unveil a nuanced picture. While a substantial portion of respondents perceived favourable effects, denoting improved transparency, another segment reported negative outcomes. Additionally, a subset of respondents noted no conspicuous alterations in transparency. These divergent responses underscore the multifaceted nature of the impact of demonetization on transparency dynamics within the surveyed region's real estate transactions.

Lastly, perspectives on the temporality of demonetizations influence on the real estate sector exhibit a balance between short-term and long-term perspectives. Roughly half of the respondents, approximately 51.5%, opine that the impact is likely to endure in the long term, while the remaining 48.5% regard it as having primarily short-term consequences. This division in outlook underscores a disparity in assessing the duration and permanence of demonetization's influence on the real estate sector, reflecting the complexity and variability of its ramifications.

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