

Book Reviews

Real Estate Finance in India

By Prashant Das and Divyanshu Sharma

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INTRODUCTION

Every person who invests in well-selected real estate in a growing section of a prosperous community adopts the surest and safest method of becoming independent, for real estate is the basis of wealth.

– Theodore Roosevelt (1858-1919), 26th President of USA

Real estate sector of India is one of the most versatile and vibrant sectors with high Year-on-Year (Y-o-Y) growth rate and expected to have a market size of USD180 bn by 2020. It is the second highest provider of employment in India after agricultural sector. Real estate is further sub divided into commercial, hospitality, housing and retail sub sectors. In the past few years, the Indian real estate has witnessed a high demand for both offices and residential spaces. The growth of real estate and its sub sector has a direct impact on the development of the corporate environment and demand for urban and rural office spaces.

As per Department of Industrial Policy and Promotion (DIPP) report, the construction development sector has been attracting a huge amount of FDI inflow over the past few years. Though the real estate sector of India seems to be a lucrative avenue for investment but there exists many hidden risks that are associated with it. To understand the complex nature of risk and return relationship that persists in Indian real estate, one needs to understand the theory. Real estate finance decisions are irrevocable and need higher degree of accuracy in spite of several complexities as a single wrong decision can lead to high loss. As far as estate finance of India is concerned, very limited reference materials are available for academics. Several high quality knowledge books on real estate are available but most of them fail to relate the literature with real situation application in Indian real estate. There is need for a book that can provide holistic knowledge about the Indian real estate sector with

excellent body of knowledge extant in the international literature and its interpretations in Indian context through case studies, discussions, macroeconomics perspectives revolve around local and foreign market. The book emphasizes on all such issues with rich survey of the real estate financial markets of India along with highlights of few unique features of Indian real estate market that are not addressed by other available international books.

INTENDED AUDIENCE

Prashant Das, Assistant Professor of real estate finance at EHL Switzerland, and Divyanshu Sharma, founding partner of 'realism. IN' have together brought out a concise yet comprehensive understanding of the scenario of real estate finance in India through this book. The book is introductory in nature, so anyone who has an interest in Indian real estate can refer to this book. Each chapter of the book is well-designed with theory and literature backed by real-life examples, case studies and solved problems. The book is ideal for a Bachelor's or Master's level programs in economics, housing, real estate finance, urban planning, and urban policy. The book and its chapters can be used as references in courses such as real estate (finance, investment, management), mortgage banking, and housing finance. In a nut shell, this book is very useful for those universities, colleges, vocational institutes, and professional institutions which offer programs in real estate.

ABOUT THE BOOK

The book has total of 10 chapters that covers real estate finance in detail. The chapters are well backed by theory with suitable real-life examples and practical usefulness. The presence of well-suited mathematical problems with solutions provides an empirical touch for further clarification other necessary supplements are provided such as opinions from experts, hands-on financial exercises, and illustrations. The book systematically progresses from basic topics to the advanced topics as explained in detail below.

Chapter one provides the reader with a detailed overview of the nature of real estate, real estate finance and real estate system. The book uses seven nodes of REAM model to explain the real estate activities and real estate sector in India. A section in this chapter discusses about the career opportunity in real estate for the diverse set of professionals as a career.

Chapter two details about the concept of the time value of money in detail. Several scenarios with solutions are used to explain the basic topics of finance like compounding, discounting, rate of returns, annuities, cash flows, Net Present Value (NPV), and Internal Rate of Return (IRR). These topics are well covered to give reader about the basic understanding about the financial decision making process and to differentiate between the various return measures using the various tools for financial calculations like calculators, excel, etc.

Chapters three, four and five deal with the lending activities of real estate. Real estate developers borrow money from lenders to finance the real estate finance as most of them do not like to take any downside risk. Concept of various debts financing option in India is discussed. Mortgage banking and alternate mortgage types like reverse mortgage, floating rate mortgage, etc., are explained with appropriate empirical scenarios for better understanding.

Chapter six focuses on investing activities and chapter seven deals with the governing activities of real estate activities. Several accounting concepts like balance sheet analysis, cash flow analysis, depreciation, profit and loss analysis, ratio analysis, and taxes are discussed using examples from a few Indian real estate companies to explain how real estate companies are managing their business in India. As financing decision is mostly affected by the various macroeconomic variable like interest rate, monetary policies, etc., such scenarios and its effect on real estate financing are explained in detail in chapter seven.

Chapter eight and nine mainly deal with various types of real estate markets. It explains the difference between capital and asset market; space and property markets for real estate. The different nature of Indian real estate market is due to the two factors products and prices. Transparency and efficiency of the Indian real estate market are discussed in detail in the later part of the chapter eight along with few expert opinions. Chapter nine exclusively discusses about the capital markets for Indian real estate. The chapter critiques on the various elements of the debt and equity markets using case study on real estate ratings. Other important concept like primary and secondary mortgage markets, mortgaged backed securities, REITs in India are touched in the later part. Finally, chapter 10 concludes with the future perspective on real estate sector in India. Expert opinions on future of mortgage finance in India, housing finance, real estate research, and green real estate in India are provided.

APPRECIATION AND CRITIQUE

In real estate finance in Indian context, this book is one of the most overdue. The chapters are very well organized and progresses systematically from the basics to the advanced topics in real estate finance. Expert opinions, illustrations and realistic scenarios presented in the book not only offer concrete knowledge about the intricacies of real estate finance but also make it interesting to read.

The book uses exclusively the 'REAM model for the real estate activities' for explaining the real estate sectors and activities. In reality the real estate activities are more complex and tangled due to presence of several other business environments variables like political, economic, social, technological, ecological and legal variables. The book covers a part of the economic environment variables that affect the real estate financing decision but covering the other active environment variables like

BOOK REVIEWS

political, social, technological, ecological and legal aspects could have aided a more comprehensive outlook to the present topic.

Overall the book is written in very simple language and a complete package to understand the nitty-gritty of real estate finance in India. Practice problems with solutions will help the reader to understand the various financial instruments. Real estate investors, academics and real estate interest group will find the book useful for developing concepts in real estate finance and its application in real life.

Moinak Maiti
Research Scholar
Department of Banking Technology
School of Management
Pondicherry University, Kalapet
Puducherry-605014, India
E-mail: maitisoft@gmail.com

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