Investment Decisions in Real Estate: A Study in Kolkata

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Abstract

Real Estate is being one of the flourishing sectors of the Indian Economy is expected to contribute around 13 per cent of the country's GDP by 2025. The rapid globalization is accelerating the demand of real estate for residence and office space. The particular study is confined mainly to residential units. The main focus of the study is to analyze the factors that influence the real estate investment decision and also to find out the influence of demographic variables on the investment decisions of the real estate. For the purpose of the study 115 respondents were selected from Kolkata.

Keywords: *Descriptive Statistics, ANOVA, Real Estate, Investment Decisions, Influence*

1. Introduction

The last half of the decade has witnessed a positive shift in Indian real estate. Real estate industry have witnessed some reforms in the last few years like cutting of GST rates for under construction residential properties, cutting of REPO rates by Reserve Bank of India there by lowering the interest rate on house building loan, formation of Real Estate Regulatory Authority (RERA) protect the home buyers from fraudulent builders. Real estate is not confined to housing only now a day. Apart from housing investing in real estate ensures bundles of benefits like various other purposes like it as can be pledged as collateral to secure a loan, one can earn rental income by investing in real estate. Tax benefit is also one of the reasons to invest in real estate.

It is to be noted that buying a real estate is not an easy exercise. So, a number of factors in involved which influence the purchase of real estate properties. The decision is complex as because mostly fund is limited and numbers of choices are more. Investors have to think about the price, location, neighbours, distance from the office or workplace, if nearby schools for children are there or not, etc. So, all those factors make the buying a real estate property a challenging task before the buyer. It is also a matter of fact that real estate industry operates in a complex environment. The land laws are different on the basis of states and many a time major differences exists among states.

It may be observed that previously real estate market was unplanned and disjointed. However, with the years the builders are carrying out their operation is a disciplined manner to meet the emerging market demand which

resulting in getting of large projects with good financing. Now a days IPOs by giant real estate developers is also one of the features in the real estate market especially in Tier-I cities (Ex, Kolkata, Mumbai, Delhi etc.)
Although at present due to Covid-19 pandemic followed by repeated lockdown the real estate investors are lacking interest due to fund constraint. However, to boost up the real estate the Bengal Government in their 2021-2022 state budget has announced a 2% rebate for stamp duty rebate required for the registration of the property deeds and followed by a 10% reduction in circle rates.

2. Literature Review

Kullmann and Siegel (2003) stated that in a highly undiversified portfolio, the property is used as a medium for investment in US investment portfolio. They also concluded that by investing in real estate the relative holdings of risky assets like stocks reduces relatively. It is also supported by Federal Reserve's 2001 survey of Consumer Finance where it states that nearly 66 per cent of the people wealth is invested in housing.

Case et al. (2003) observed that the momentum effect is used as a basis for future property price expectations. He finds that when the price of the property increases people are motivated to buy a house. In his study, about 80 per cent of the respondents are on the opinion that the increase in the price of property induced them to buy a house.

Farlow (2004) concluded that over-optimism was the most important psychological bias in real estate market as the investor believe that buying a house is not a risky exercise and house price will increase by more than 11 per cent per year. In the case of the booming period of real estate investors take the credit by attributing it as a wise investment. Whereas, in case of bust cycle i.e., falling investment investors attribute it as bad luck or bad market conditions etc.

Case et al. (2005) concluded that overconfidence played a significant factor in determining behaviour in the real estate market as overconfidence is related to cognitive processes. Overconfidence generally originated from personal bias whereby people know occurrences of certain events from advance.

Shiller (2007) stated that purchasing a house is both an investment decision and a consumption function. These characteristics make comparison difficult with other financial assets as they cannot be directly consumed. He also states that investment in the housing sector differs from other investors as the former is highly illiquid as it is traded infrequently and the heterogeneity of the asset.

Ratchatakulpat et al. (2009) in his study focused on different variables, which have an effect on the investment decisions. The variables that he used for his study were a locational factor, physical facility, distance factors, environmental factors, legal & psychological factors and evaluating factors. But he has not included in his study any irrational factors.

Karandikar (2016) in his study pertaining to Pune Municipal Corporation stated that buyers will prefer to buy under-construction flats rather than readily processed flats because readily processed flats are more expensive. Also, future growth of the area is more important to the buyer rather than the early date of possession.

Agrawal (2019) concludes that return on real estate varies significantly among locations and market cycles. He also states that in real estate it is difficult to measure return as compared to the stock market which has an index that helps to measure the rate of return. In India, real estate and equity have given maximum return to investors, however, the return of real estate has outperformed the return from equity.

Sinha, et al. (2020) in their study regarding overview on the Indian real estate sector concluded that for NRI real estate is an attractive investment opportunity. Bengaluru is expected to be most sought-after destination for the NRI followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun. However, as per the opinion of the

authors there should be strict Government monitoring policy on the real estate sector. Also, they are on the opinion that to make the real estate more attractive, the interest rate should be reduced.

3. Objectives of the Study

After studying the literature review it was found that few studies were conducted in Kolkata where the factors that influence the investment in real estate is highlighted. The general objective of the study is to assess the factors that investors looks upon while investing in real estate. The specific objectives of the study are as follows:

- To study the investment decisions in real estate of investors.
- To investigate the influence of demographic factors in investment pattern of investors.
- To study the various attributes that influence the purchase decisions of real estate.

4. Research Methodology

The present study is empirical and exploratory in nature.

For the purpose of the study the data from 115 respondents were collected from the actual and potential real estate investors all over Kolkata. The time period of the study was from August 2020 to November 2020. For the purpose of the study data was collected by dividing Kolkata into -4- regions vis a vis South Kolkata, North Kolkata, Central Kolkata, and New Town.

In the study purpose of investment were segregated into 4 types for the analysis namely for residential purpose, to hold the property, for letting out and for tax purposes.

For the purpose of studying the attributes in details the main factors that were identified are Location, Price, Design, and public services.

> **Location:** Location is one of the important factors that influence the buying of real estate. Under location the attributes that were studies are convenient of the location, proximity to work place, accessibility to nearby markets, medical centers, banks, school for children etc.
>
> **Price:** Underprice factors the following attributes were studies mainly price of the property in relation to other available option, future apprehension in price, availability of loan, amount of interest, maintain fees etc.
>
> **Design:** The main attributes are design factors that were studied are availability of living space, parking area, lift facility, good quality of building etc.
>
> **Public services:** Under public services the investors are interested mainly in the following attributes which are availability of public transport, laundry services, plumber, drinking water for 24 hours, nearby railway / metro station, garbage cleaning facility etc.

5. Data Analysis & Findings

In this section the analysis of the responses was done. The responses were collected with the help of a structured questionnaire. The various tools used for the study are

5.1 Demographic Characteristics of the Respondents

The targeted sample was from a single family to avoid multiple responses from the same family and to maintain the transparency. Total sample collected from distribution of questionnaire was 115. The distribution was distributed across Kolkata in both online and offline mode.

The demographic analysis shows that out of 115 respondents 62.04% were male who has already purchased the real estate or are potential buyers of real estate. The rest of the respondents i.e. 37.96% are female respondents. Further, the analysis shows maximum of the respondents i.e. 40% of the sample size belong to the age group of 45 years - 55 years followed by 25.10% of the respondents are from the age group of 35 years - 45 years. The rest 22.45% and 12.45% of the respondents belong to the age group of more than 55 years and 25 years - 35 years respectively.

The educational qualification of the respondents plays an important role in influencing the investment decisions of the investors. So far educational qualification is concerned 52.04% of the respondents have done their post-graduate followed by 40.82% of the respondents are graduate. Rest 7.14% are 12th level passed.

With regard to the occupation of the respondents it was found that 47% of the respondents are salaried employee, followed by 30% of the respondents are businessmen. Rest 18% and 5% are professional and retired respectively. The income of the respondents is another important influential factor. In the present study 44.90% of the respondents are falling in the annual income group of ₹5 Lakhs to ₹10 Lakhs, followed by 30% of the respondents are in the annual income group of ₹10 Lakhs to ₹15 Lakhs. The percentage of the respondents whose annual income is less than ₹ 5 Lakhs is 12.24%. Rests 12.86% of the respondents are in the income group of more than ₹15 Lakhs.

With so far marital status of the respondents are concerned 65.31% of the respondents are married and rest are unmarried.

The aforesaid study is carried away in Kolkata. So, the entire Kolkata was divided into -4- Regions like South Kolkata, North Kolkata, Central Kolkata, and New Town. The highest sample of 40% was collected from South Kolkata, followed by 25.10% of the sample were collected from North Kolkata. 20% of the samples are collected from Central Kolkata and rest 15% are collected from New Town Area.

5.2 Investment Types
For the purpose of the study the investment purpose has been segregated into 4 types which are as follows:
- Buy solely for residential purpose: These are average home buyer whose main objective is to buy house property for residential purpose.
- Buy to hold the property: These people invested in house property in anticipation of appreciation in value in a long time and then sells the property at a huge margin there by a making a huge profit.
- Buy for letting to generate rental income.
- Buy the house property for tax saving purposes.

It was found out in the study that for 35.92% of the respondents the main objective of investment in real estate is for residential purpose followed by 30.61% of the respondents for whom the main purpose is tax saving purpose. So, tax savings is also one of the important determinants that influence the investment in real estate. 22.45% of the respondents want to hold the property for longer time waiting for price appreciation and thereby selling the investment to make huge profit. Rest 11.02% of the respondents wants to invest so that it can be used as a rental and cash flow will come at a regular interval of time.

5.3 Holding Period of Investment
The analysis of the holding period is one of the crucial factors. In our study the holding period is divided into -3- categories short term (Less than 5 years), Medium term (5 years – 10 years) and long term (More than 10 years).

It was noted in the study that 45.10% respondents are interested to hold the real estate for very long time i.e., for more than 15 years Whereas, 30.41% of the respondents are interested to hold the asset for 05 – 10 years i.e. they will observe the market for a long period of time and then take their decision with the investment. The balances 24.49% of the respondents are holding the investment for short term purpose.

5.4 Value of Portfolio for Investment in Real Estate
The purchase value of the investment is another important criterion that influence the investment decision of the real estate investors

The study reveals that 43.07% of the respondents are willing to invest ₹ 15 - ₹ 30 Lakhs in real estate followed by 40% of the respondents are willing to invest ₹ 30 – ₹ 45 Lakhs. So, majority of the respondents are willing to invest

in the mid-range. It can also be observed that only few of the respondents are willing to invest very less amount i.e. less than ₹ 15 lakhs and also very few want to invest more than ₹ 45 Lakhs in real estate.

5.5 Dependency of Investment Decisions on Demographic Characteristics

In following tables, the dependency of the various factors that influence the investment decision of real estate based on age, marital status, educational qualification, occupation, income have been studied.

Table 1: Dependency of the purpose of investment of Real Estate on Various Demographic Factors

Purpose of Investment	Age		Gender		Marital Status		Family Type		Occupation		Annual Income		Region	
	F-Value	P-Value	F-Value	P-Value	F-Value	P-Value	F-Value	P-Value	F-Value	P-Value	F-Value	P-Value	F-Value	P-Value
Residential Purpose	3.28	0.04*	3.27	0.04*	3.52	0.03*	0.35	0.55	0.45	0.72	0.45	0.72	5.21	0.02*
Holding for long period	0.34	0.84	1.73	0.19	0.08	0.92	0.05	0.82	0.36	0.78	0.36	0.78	0.45	0.54
Generate Rental Income	4.34	0.05*	0.22	0.63	3.94	0.03*	0.26	0.61	0.09	0.96	0.09	0.96	0.03	0.82
Tax Savings	0.61	0.653	0.00	0.97	0.74	0.47	2.58	0.03*	1.03	0.39	2.99	0.05*	1.75	0.45

It can be noted from the aforesaid table that investors who are investing in real estate for residential purposes is having significant variation with respect to age, gender, marital status and region. In other words, it can be said age, gender, marital status, and region of the respondents plays a significant role when the investors invest in real estate for residential purposes.

It can also be observed from the above table that investors who invest in real estate to general rental income in that case age and marital status plays a significant role i.e., the decision to invest in real estate for generating rental income in greatly influenced by the age and marital status of the respondents.

Also, it can be found that for those investors who invest in real estate for tax savings purpose, for them the family type and annual income play a significant role.

5.5 Various Attributes that Influence Purchase Decisions of Real Estate

The various attributes that affect the buying of real estate have been measured with the help of bipolar scale (1-2-3-4-5). The bipolar scale is arranged in ascending order. -1- signifies very low importance of the factors and 5 signifies extreme high importance of the factors.

Table 2: Descriptive Statistics of Location Factor

Attributes	Frequency (%)					Mean	SD	Skewness	Kurtosis
	1	2	3	4	5				
1. Convenient of the location	00	02 (00.9)	11 (09.6)	41 (35.7)	61 (53.0)	4.42	0.703	-0.960	0.263
2. Proximity to work place	00	00	15 (13)	66 (57.4)	34 (29.6)	4.17	0.634	-0.149	-0.555
3. Accessibility to nearby market	00	01 (0.9)	26 (22.6)	38 (33)	50 (43.5)	4.19	0.815	-0.466	-1.054
4. Accessibility to school for children	00	08 (7.0)	09 (7.8)	49 (42.6)	49 (42.6)	4.21	0.863	-1.085	0.727
5. Presence of banks, post office nearby	00	12 (10.4)	09 (7.8)	52 (45.2)	42 (36.5)	4.08	0.929	-0.960	0.232
6. Availability of pollution free environment	00	02 (1.7)	09 (7.8)	45 (39.1)	59 (51.3)	4.40	0.711	-1.056	0.893
7. Availability of community facilities	00	04 (3.5)	18 (15.7)	38 (33)	55 (47.8)	4.25	0.846	-0.863	-0.118
8. Upcoming development in the surroundings	00	14 (12.2)	14 (12.2)	43 (37.4)	44 (38.3)	4.02	1.000	-0.785	-0.417
9. Presence of Religious Building (Temple/Mosque/Church Etc.)	13 (11.3)	22 (19.1)	37 (32.2)	14 (12.2)	29 (25.2)	3.21	1.321	-0.022	-1.076

From the above table, it can be noted that under locational factors, respondents are giving maximum preference to convenient of the location followed by pollution free environment. It can also be observed that respondents are giving least priority to presence of religious institutes like temple / mosque / church etc.

Table 3: Descriptive Statistics of Price Factor

Attributes	Frequency (%)					Mean	SD	Skewness	Kurtosis
	1	2	3	4	5				
1. Price of the property lowest among other available option	00	04 (03.5)	24 (20.9)	48 (41.7)	39 (33.9)	4.06	0.830	-0.489	-0.494
2. Comparative neighborhood prices was higher or same	00	05 (04.3)	20 (17.4)	54 (47.0)	36 (31.3)	4.05	0.815	-0.592	-0.097
3. Future apprehension in price is expected	00	02 (01.8)	10 (8.7)	59 (51.3)	44 (38.3)	4.28	0.659	-0.561	0.197
4. Municipal tax and other taxes levied on the property	00	08 (07.0)	21 (18.3)	58 (50.4)	28 (24.3)	3.92	0.839	-0.575	-0.059
5. Easy availability of loan	03 (02.6)	03 (02.6)	33 (28.7)	45 (39.1)	31 (27.0)	4.25	0.939	-0.670	0.550
6. Broker cost associated with the buying of the property	00	05 (04.3)	17 (14.8)	44 (38.3)	49 (42.6)	4.19	0.847	-0.819	-0.017
7. Misc. expenses associated with the property	00	05 (04.3)	17 (14.8)	54 (47.0)	39 (33.9)	4.10	0.810	-0.698	0.112
8. Monthly maintain fees with the property	00	02 (01.7)	26 (22.6)	48 (41.7)	39 (33.9)	4.08	0.796	-0.354	-0.768
9. If interest subsidy available under PMAY scheme	01 (00.9)	05 (04.3)	26 (22.6)	43 (37.4)	40 (34.8)	4.01	0.913	-0.651	-0.033
10. Project registered with RERA	00	04 (03.5)	25 (21.7)	44 (38.3)	42 (36.5)	4.08	0.850	-0.500	-0.619

It can be observed from the above table that underprice factors respondents are mostly concerned about future appreciation in price followed by easy availability of loan. It can also be notice that respondents are giving less priority to municipal tax levied on the property.

Table 4: Descriptive Statistics of Design Factor

Attributes	Frequency (%)					Mean	SD	Skewness	Kurtosis
	1	2	3	4	5				
1. Availability of living space	00	01 (00.9)	01 (0.9)	57 (49.6)	56 (48.7)	4.46	0.566	-0.728	1.279
2. Availability of lift facility	00	01 (00.9)	10 (8.7)	55 (47.8)	49 (42.6)	4.32	0.669	-0.659	0.166
3. Availability of Parking facility	00	03 (2.60)	06 (5.2)	68 (59.13)	41 (35.65)	4.35	0.597	-0.910	-0.146
4.Attached washrooms is there with the bedroom	00	02 (1.7)	05 (4.3)	40 (34.8)	68 (59.1)	4.51	0.667	-1.402	2.175
5. Good view from window	00	01 (0.9)	13 (11.3)	49 (42.6)	52 (45.2)	4.32	0.708	-0.704	-0.122
6. Flats should be as per VASTU	01 (0.9)	10 (8.7)	13 (11.3)	46 (40.0)	45 (39.1)	4.08	0.501	-0.992	0.391
7. Entrance door of the flat to be wide and decorative	01 (0.9)	02 (1.7)	21 (18.3)	56 (48.7)	35 (30.4)	4.06	0.798	-0.743	0.973
8. Good quality of building	00	02 (01.7)	08 (7.0)	41 (35.7)	64 (55.7)	4.45	0.704	-1.210	1.264

It can be observed from the aforesaid table that under design related factors respondents are giving maximum rank on availability of living space i.e., respondents are looking for availability of fresh air followed by attached washroom beside their bed room. The respondents are giving least importance on VASTU factors.

Table 5: Descriptive Statistics of Public Service

Attributes	Frequency (%)					Mean	SD	Skewness	Kurtosis
	1	2	3	4	5				
1. Availability of public transport from location	04 (03.5)	06 (05.2)	09 (7.8)	49 (42.6)	47 (40.9)	4.12	1.001	-1.422	1.920
2. Connectivity to nearby Metro / Railway station	01 (00.9)	07 (06.1)	09 (7.8)	47 (40.9)	51 (44.3)	4.22	0.896	-1.264	1.439
3. Connectivity to nearby airport	00	08 (7.0)	19 (16.5)	50 (43.5)	38 (33.0)	4.03	0.883	-0.673	-0.192
4. Availability of hospital / Dr. Clinic / 24 hrs medicine shop near by	00	00	02 (1.7)	60 (52.2)	53 (46.1)	4.44	0.533	-0.125	-1.237
5. Availability of laundry services	07 (06.1)	08 (7.0)	21 (18.3)	40 (34.8)	39 (33.9)	3.83	1.154	-0.924	0.175
6. Availability of plumber, electrician in the campus or very near to it.	08 (07.0)	05 (04.3)	19 (16.5)	39 (33.9)	44 (38.3)	3.92	1.163	-1.104	0.575
7. Availability of proper drinking water for 24 Hrs	00	00	21 (18.3)	34 (29.6)	60 (52.2)	4.34	0.771	-0.671	-1.003
8. Everyday garbage cleaning will be done	00	01 (0.9)	3 (2.6)	58 (50.4)	53 (46.1)	4.42	0.592	-0.706	0.991
9. Provision of generator in case of emergency power cut	01 (0.9)	03 (2.6)	27 (23.5)	38 (33.0)	46 (40)	4.09	0.904	-0.682	-0.069
10. Availability of mobile tower in the campus area	08 (7.0)	07 (6.1)	13 (11.3)	42 (36.5)	45 (39.1)	3.95	1.176	-1.181	0.643
11. No presence of stray dog inside the campus	09 (7.8)	18 (15.7)	24 (20.9)	32 (27.8)	32 (27.8)	3.52	1.266	-0.459	-0.860

It can be noted from the aforesaid table that respondents are giving maximum priority to availability to hospital / Doctor's clinic i.e. respondents will give maximum preference to real estate where nearby health facilities are

available i.e., respondents preferred to invest in such a location where nearby medical institutions are available. Respondents are giving least preference to presence of stray dog inside the campus.

6. Concluding Remarks

The study aims to explore the factors that influence the decision regarding investing in real estate. In general, buying a real estate is a complex decision and it is also a dream for many to have a real estate. Buying a real estate is a tough nut to crack as there are multiple parameters and these are varying from individual to individual.

The factors that influence the investment decision of real estate are purpose of investment, holding period of investment, and value of portfolio for investment in real estate. Out of these it was found that demographic characteristics play a significant role in influencing their decisions. In the study it was found that age of the respondents plays a very significant role in the decisions of investors who invest for the residential purpose and for generating rental income. Marital status of the respondents plays a significant role for those investors who invest in real estate for residential purpose and for generating rental income.

Also, it is identified from the aforesaid study the five attributes that influenced the investment decision in real estate are location factor, price factor, design factor, public services factor. After studying the descriptive statistics of the five attributes it is found that under location factor, respondents are mainly looking for convenience of the location. With regards to the price factor respondents mainly sought-after easy availability of loan. So far design factor is concerned, respondents mostly favour availability of living space i.e., availability of fresh oxygen. Also, with regards to public service it is found most of the respondents are health conscious, so they are preferring availability of nearby medial facilities.

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