



Comparative analysis of price trends of residential real estate properties in Bangalore

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Abstract

Amongst all the sectors that play crucial roles in the overall GDP of the Indian economy, the Real estate sector is one of the major contributors. The sector not only helps in the upliftment of the construction business; it also helps in the increase of employment facilities in different ancillary sectors. According to JLL report (2018), Bangalore contributes highly to the real estate sector through commercial projects. However, Bangalore is also considered as the most preferred residential location in India. The overall price of the real estate sector in India has shown a downward trend over the last few years. Bangalore provides varieties of residential real estate properties. The current work has helped to determine the price trends of the major residential properties in Bangalore over a period of 4 years.

Design/Methodology: In the current research work, we have collected prices of residential properties constructed by 20 top builders of Bangalore. The dimension of the properties has been restricted to 3 bhk and the data has been collected from 2016-2019.

Findings: Unlike the rest of the country, the Bangalore residential real estate market has observed an increasing trend in the prices of the properties.

Research Implications: Our objective is to determine the recent price trends of Bangalore residential projects. This will help the prospective investors to identify the best option for real estate investment in terms of price. Also it will help to identify the price trends of the top builders in Bangalore.

JEL Code: R28, R30, R38

Keywords: real estate, residential properties, housing prices, Bangalore

1. Introduction

Real estate sector was considered as one of the most prominent unorganized sectors. The prices differ from one place to another even in the same economy. The prices of the properties are highly influenced by the demand for the properties depending on the different demographic factors. National Housing Bank (NHB RESIDEX) which was launched in the year 2007, was the first official price index for the housing sector. It is recognized by the Government of India, Ministry of Finance. The objective of NHB was to track the changes in the property prices of different cities in India. Initially the price index of NHB was determined from the market data. Later on the data was fetched from the banks and the different housing finance companies. Just like any other index, the NHB price index is also based on a base year. The first benchmark year was 2007. This was followed by the financial year 2012-2013. The latest updated Base year has been considered as 2017-18. In 2007, the NHB RESIDEX covered price data for 26 cities. Currently it covers 50 cities. The price data provided by NHB covers provisions for housing prices, rentals and land prices. Under housing prices, it covers data both city wise and composite also. It also provides price information for under construction projects. Under the land prices, provisions of prices for building materials are also provided. This comprises both traditional and energy saving materials.

1.1 Literature Review

Several researches have been conducted regarding the factors affecting the changes in the real estate properties.

The real estate prices are highly affected by the macro economic variables. A high correlation exists between the land prices and the Consumer Price Index (CPI) as well as the Real GDP, K.H. Kim and H.S. Lee (2020) ^[7]. A study has been conducted to identify if there is any correlation between the public debt and the real estate prices. Results highlight that any kind of shocks to public debt has a negative impact on the residential properties, M. Micheli (2020) ^[9]. Evidence from Canada shows that fluctuations in the housing properties have a positive impact on the profitability of the banks. However under the risk-adjusted conditions, the profits deviate, R. N. Killins (2020) ^[6]. Researchers have found that the sentiments of the entrepreneurs are independent in nature and directly influences the real estate market maturity. This shows that the sentiments of the entrepreneurs positively affects the prices of the housing properties, Y. Yang (2019) ^[15]. Studies also confirm that a positive increase in the financial condition directly influences the real estate property prices, Herman, S., & Biskupec, P. P. (2019) ^[5]. A study analyses the factors which affect real estate prices in London. It is found that out of the various factors, Density of the population, income level of the investors are the main influencers, Y. Gu (2018) ^[4]. It has been found that, out of the several factors that directly or indirectly influences the real estate price rise, the growth in rent and the land supply plays the most important role, Y. Deng (2018) ^[3]. Apart from demographic factors, researchers have found that socio demographic factors like: number of members in a family, inequality index etc. play a significant role in the changes in

real estate prices, E. Cohen (2017) [2]. Trends in the commercial real estate sector show that macroeconomic factors like inflation rates, recession highly influence the prices of the properties, E. S. Rosengren (2017) [12]. Research has been conducted on the correlation between real estate investment and the housing prices. Where in the long run, the correlation is positive, in the short run there exists a negative correlation, L. Xu (2017) [14]. Further study highlights that in the long run, equilibrium exists between the real estate prices and the CPI. However this is not the same for sale of land, J. Li and Y.H. Chiang (2012) [8]. The forecasting of the real estate prices have been tested through the Spatial temporal method, where it has been proved as a good approach to predict the real estate prices, R. K. Pace *et al.* (2000) [10]. Another study supports this by proving that the real estate price trends can be predicted by the fundamental factors in an economy, J. M. Quigley (2002) [13]. Different models have been applied by researchers to identify the impact and trends in the real estate prices. One such successful model is ARIMA, Raymond Y.C. Tse (1997) [11]. In the study Case, B., & Quigley, J. M. (1991) [1], a detailed analysis has been conducted by the authors regarding the real estate dynamics. This also includes the factors like transaction nature, type of family structure etc.

Which affects the real estate prices.

2. Materials and Methods

The price/sqft of the residential properties of Bangalore is collected through the help of reliable secondary data sources. The price quotes are collected from the respective Builders online sites. In many cases it has been found that the price of 2bhk and 3 bhk apartments are almost the same. Moreover for the purpose of residence of a standard family, 3 bhk is the best option. In order to avoid any confusion regarding the price trends, the dimensions for the required price information has been kept restricted to 3bhk. To determine the mean value of the prices of the apartments per year, the average value of 3 projects/year of each builder has been considered. The mean value has been calculated by taking an average of the highest, lowest & medium price/sqft of a particular builder in a specific year. The same has been done for all the 4 years. Further, the mean price/sqft for all the 20 builders has been calculated. Also, to find the average price from 2016-2019, the average price/sqft of each year has been considered by calculating the average price of all the builders in the respective years. It is also to be noted that, due to the unavailability of price data prior to 2016 of all the 20 builders, the data has been considered from 2016-2019.

3. Results and Discussion

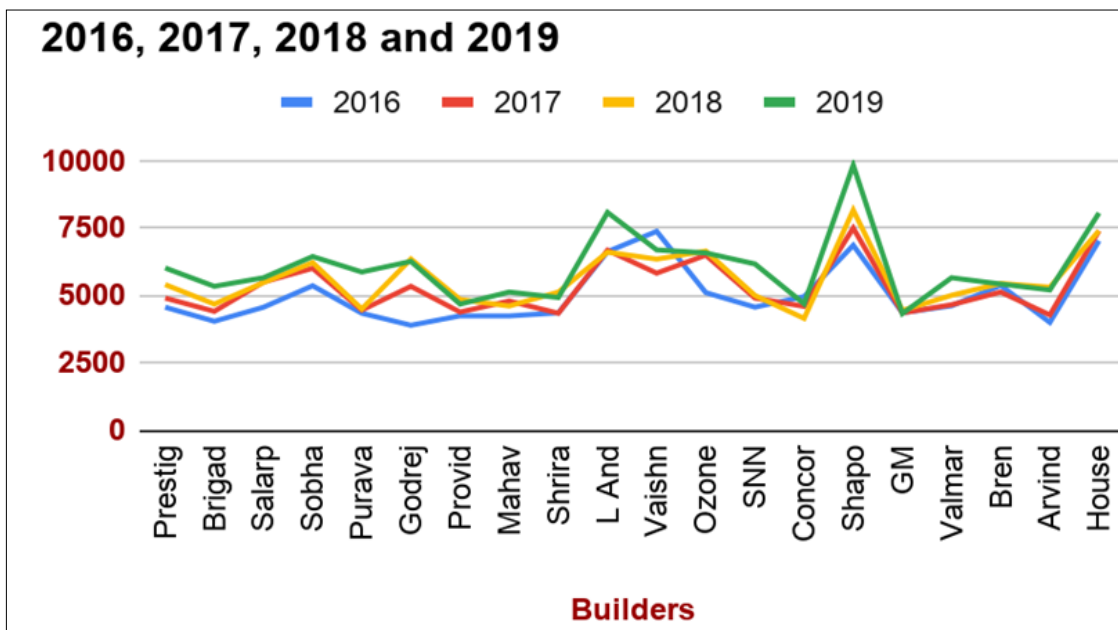


Fig 1: Average Price/ Builder from 2016-19

Figure 1 highlights the average price/sqft of all 20 builders from 2016-2019. The data shows that the minimum price quoted amongst all the builders is GM Infinite which is Rs 4366.75/sqft. On the other hand, the highest price is quoted by Shapoorji Pallonji Real Estate which is Rs 8084.5/sqft. According to the average price factor over a period of 4 years i.e 2016-19, the top 5 builders quoting high prices are: Shapoorji Pallonji Real Estate, House Of Hiranandani, L And T Realty, Vaishnavi Group & Ozone Group. The price/sqft quoted by these 5 builders on an average basis are: 8084.5, 7466.75, 6992, 6556.25 & 6200.25 respectively. However, the average price has been calculated based on data available from Bangalore projects

only.

The analysis shows that in the case of Shapoorji Pallonji Real Estate & House of Hiranandani, there has been a trend of constant increase in the prices quoted by the builders. However, the price has been significantly increased by L and T Realty in the year 2019. The price in 2019 has increased by 22.31% with respect to 2018. Vaishnavi Group faced a decline of 21.05% in the price in 2017. However after that the price had started to rise but at a low rate. On the other hand there has been an increasing trend of price for Ozone Group. Only in the year 2019, the price declined by 1%.

From figure 1 it is clearly visible that most of the builders in

Bangalore have increased the prices of the apartments from the year 2016-2019. Where, the highest price/sqft is

recorded in the year 2019, the lowest price is recorded in the year 2016.

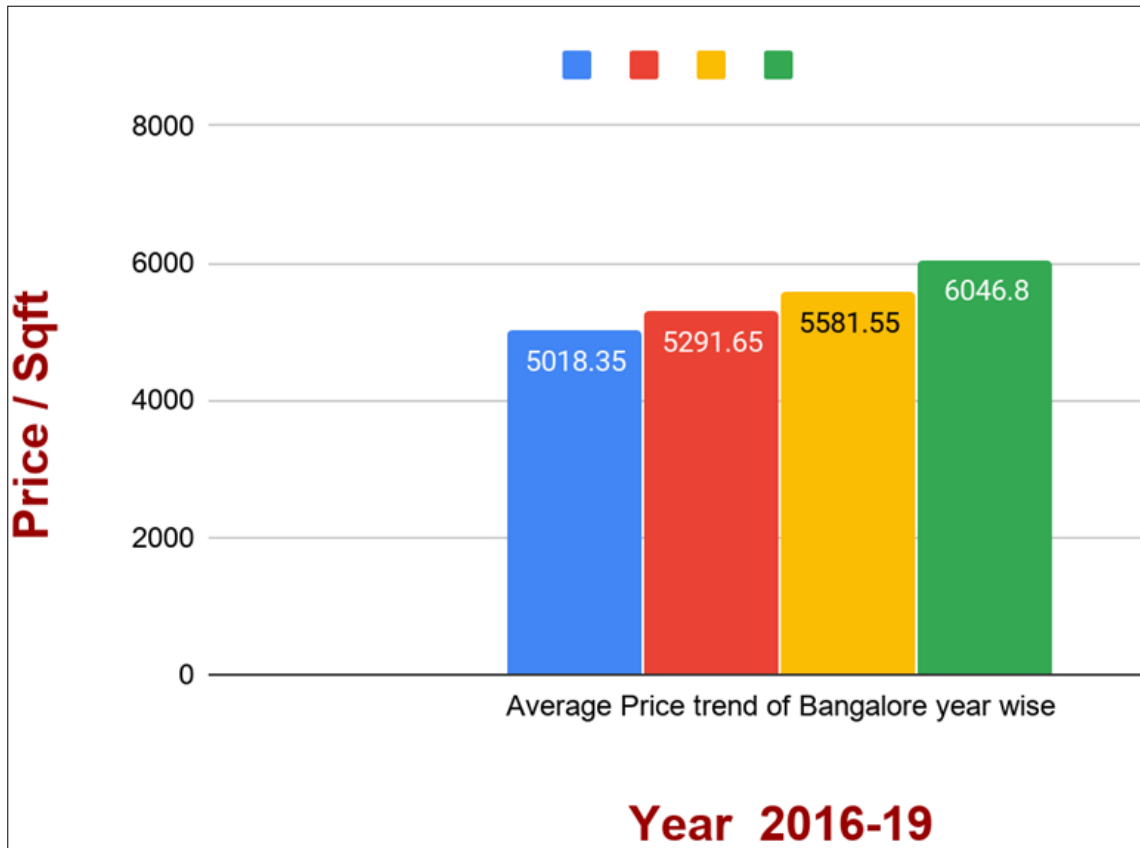


Fig 2: Average Price trend of Bangalore year wise

Figure 2 shows the overall price trend of Bangalore over the last 4 years. Prior to 2016, the price data is not available for most of the builders. Thus the data has been collected from 2016-2019. If we observe the overall scenario of Bangalore (considering 20 builders), it shows that there has been a significant increase in the prices of residential real estate properties. Where in comparison to 2016 & 2017, the price in 2017 & 2018 has increased by 5.45% and 5.48% respectively; there has been an abrupt increase of 8.34% in 2019.

4. Conclusion

CEIC is a platform for real estate which provides the quarterly price data of houses all over India. Price trend of the overall Indian economy shows that in comparison to 2016, there has been a sudden decline in 2017. Prices in 2018 again boomed and this was followed by an abrupt decline in the first quarter of 2019. Although after the decline, the prices from the entire Indian scenario started increasing, but the growth rate was very low.

On the contrary, 90% of the top builders in Bangalore have increased the prices of the residential properties at an increasing rate from 2016-2019. In fact in certain cases, the prices in 2019 have abruptly increased. Thus it is observed that Bangalore residential real estate sector is not following the market trends seen in the rest of the country.

The current work opens scope for further research to analyze the reasons behind the increasing price trend of residential properties in Bangalore. This might be conducted through the help of the opinions provided by the different reputed builders in Bangalore real estate market.

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