

CHAPTER-2

REVIEW OF LITERATURE

2.0 Literature Review Overview

The direction of the study has been influenced by a number of Government reports, research papers from Journals, guidelines, industry reports and legal compliances. An extensive review of literature related to the study help in developing the broad conceptual basis for the research. A large number of widely reputed journals, Conference papers, published, Consultancy and industry reports of world renowned firms and Government guidelines constituted the main reference material of the study.

The literature Review of the study has been structured in the following way

1. Real Estate in General –Introduction
2. Housing and Urban development
3. Real Estate Pricing
4. Valuation of Real Estate
5. Buying Behaviour.
6. Research gap.

2.1 Real Estate in General –Introduction

Naik, D.D. (1981) explains "housing is an essential element of life for most human beings. The modern concept of housing does not limit the idea of housing merely to the provision of shelter.

Porter, Michael E. (1998) in his study explained Studying the nature of real estate is complex considering that it is not a product or service, per se, but a whole sector, comprising of distinct businesses.

Towindo Tichaona (2013) in his research study realized that the real estate and property management industry also plays a crucial role towards the country's

Economic growth, this researcher found it necessary to take a keener look into this neglected, almost invisible, but very significant sector in the city of Beira, the second capital of Mozambique. The topic of this area of study, `Challenges Facing the Real Estate and Property Management in Beira, Mozambique`, has not been seriously explored at national level in general, and at local (provincial level) in particular. As a matter of fact this specific area of study, that is both management and policy formulation in nature, is altogether a relatively new territory for the rest of the country.

Singh, Vandna and Komal (2009) in their study defines as Real estate is often considered synonymous with real property, in contrast with personal property.

Hui Deng (2006) concludes that the real estate development, consisting of housing projects in China, is a significant sector for the local government to collect user charge revenues as a complement of relatively low tax collections from this industry. The user charge revenue contributes greatly to support local public expenditures such as infrastructures, public utilities and public facilities which are important to local growth.

Mittal Bharat. (2007) has revealed that Indian real estate has huge potential demand in almost every sector especially commercial, residential, retail, industrial, hospitality, healthcare, etc.

Real estate consists of four elements: the land surface, the sub-surface, the air-surface; the permanently affixed objects and fixtures; the appurtenances or incidental rights attached to the use of the properties therewith; and the immovable properties belonging to the landowner in law (Adetiloye, 2013)

2.2 Housing and Urban development

Rao, C.H. Gopinath. (1988) argues housing shortage is a universal phenomenon. It is more acute in developing countries. In India the backlog by 2000 A.D is about 4.5 million housing units which has to be built every year.

Parekh (1988) states, the formal institutional funding of housing was Rs. 1,071, 18 crores and informal funding was Rs. 3,10,805 crores in the year 1982-83. Hence about 75% of the investment in housing was from informal sources.

Harichandran, C. (1989) stated that due to budgetary constraints and other pressing problems the housing shortage and substandard houses have increased over the years

In the opinion of Bhalla (1991), the present housing shortage in the country, is estimated to be around 30 million dwellings.

Misra, Sweta (1996) stated in her study the importance of housing was universally recognised from the dawn of history. With the advancement of knowledge and civilisation man became particular about sanitation, environment, privacy and location of the house. He became conscious of better facilities which make his life easy and comfortable

Patel Usha (1996) in her study explains that at present housing through bank finance has been a part of Bank's priority sector lending.

Hansson Anna Granath, (2017) in her research written against the background of intense public debate on increasing housing shortages and housing policy reform in Germany and Sweden. Potential reforms to increase housing development volumes, especially in the affordable segment, are analysed using theories of institutional change with focus on urban planning, building law and housing policy. The instruments analysed are divided into measures intended to increase housing supply elasticity and targeted affordable housing measures.

Three measures intended to increase housing supply elasticity that could be transferable to Sweden are identified: 1) Development planning could be reformed through facilitated procedures, the introduction of private initiative in planning and new incentives of planning authorities. 2) The planning and building legislation could be reformed to facilitate building approvals in relation to serial housing construction,

which in turn could increase the number of affordable homes being built. 3) City housing policy could promote housing development through more intense use of the policy instruments of organisation, urban planning, municipal land and subsidies, with city organisation and political attention to housing markets being identified as crucial.

However, effectively targeted affordable housing policies are difficult to implement under the current Swedish housing policy regime. In the short term, Swedish housing policy should therefore concentrate on housing supply elasticity-enhancing measures. However, considering the increasing pressure on the affordable housing supply and future expected demographic changes, public discussion of potential future solutions would be valuable. A first step would be to compile housing statistics such that the affordable housing shortage and the opportunities to design effective measures to counter it could be better understood.

Borthakur Manjit. & Nath Bhrigu Kumar. (2012) in their study found that during the last 20 years, the Guwahati metropolitan area has undergone phenomenal change in urban landscape that resulted in the loss of natural land cover. As a result, the surface temperature of the city has increased and a prominent urban heat island is formed in and around the settlement areas. All these have severe environmental and health consequences. The land use regulation plan of GMDA's Mater plan can be a tool for sustainability of natural land cover. But the continuous intervention of human settlement to natural land covers in Guwahati metropolitan area has revealed the failure of land use zoning and regulatory action. The metropolitan development authorities should have strict regulation in the green belt and eco sensitive areas of the city. Social forestry in the green belt areas, light color surfaces in residential units, plantation in the roof of buildings and trees along by the roads, may be some countermeasures of the heat island effect in Guwahati.

The residential real-estate industry in India is complex and dynamic. Varying economic and demographic characteristics across the country result in differences in the housing markets in different cities. While soaring prices have led to speculation about a housing bubble in large cities like Mumbai and Delhi, prices in tier-II and tier-

III cities such as Kochi and Hyderabad have remained relatively stagnant (NHB, 2013).

Manta Rinku (2014) in his research paper described the process of Urbanisation by which means increasing proportion of the country's population starts residing in urban areas. Urbanisation is related to the core concern of Urban Geography. It stands for the study of Urban Concentration and Urban phenomena. By Urban Concentration what is meant in the different forms of urban setting; and by urban phenomena we mean all those processes that contribute to the development of urban centers and their resultant factors. Here he focus the patern of Urbanization in India as well as in the state of Assam. He has also gave a clear picture of urbanization of the Guwahati city. He has described the factors of urbanization in the big and small cities in the state of Assam. According to Census an urban area was determined based on two important criteria, namely: : (i) statutory administration; (ii) certain economic and demographic indicators. The first criterion includes civic status of towns, and the second entails characteristics like population size, density of population, and percentage of the workforce in the non-agricultural sector.

Demand for housing has increased in recent years due to rising per capita incomes, the increasing penetration of housing finance, and increasing population density in urban areas. The growing middle class, expected to grow from 224 million to 583 million by 2025, has added to existing pressure on the demand for housing (Mustafi, 2013).

2.3 Real Estate Pricing :

Quigley, J.M. (1999) argues that, although economic fundamentals are important determinants of house prices, such factors still leave a large share of changes in real estate prices unexplained.

Farlow (2004) stated that the fundamental determinants of house prices in this efficient market are income, interest rates, housing stock, demographic changes, credit availability, and the tax structure.

Case and Shiller (1989) find positive serial correlation in single family homes. In addition, they conclude that information relating to real interest rates, which should be an important determinant, does not appear to be incorporated into the pricing of housing

Antonina, Mavrodiy. (2005) in a study focussed on the main determinant factors of Real Estate prices. Investigation of Kiev real estate market confirms the influence of the different macro and micro factors on real estate market. In this study the effect of changes in GDP, income level, population in interest rate is examined. The analysis inferred the direct relationship between GDP, income level, population and housing prices, while changes in interest rate negatively affect price level. Estimation result also provide the evidence of the relationship between micro factors and housing prices. Location and qualitative attributes appear to have significant effect on the real estate prices.

Bardhan et al (2004) analyzed the influence of globalization and openness of the country on real estate rents. Since rents are highly correlated with the price this study can also be used for the price analysis. The paper considers 46 major world cities and concludes that higher openness increases rents and hence it can be assumed that real estate pieces rise as well. In the analysis such variables influencing real estate market are chosen: urban wages and price of services, gross domestic product and gross domestic product per capita, city population, openness. The estimation results confirm the assumption that openness influence real estate prices positively as well as GDP. Besides, higher wages, higher services' prices and larger city population result in higher rents and it can be expected to lead to higher prices through an increase in demand.

Iman Abdul Hamid Mar and Tan Yu Tian, (2013) in their study had provided evidence of how people in a developing market value environmental amenity in the context of house purchase. Primary data from a questionnaire survey were collected in order to identify important factors of view. The results have shown that view impact was the most important aspect of environmental amenity that influences house prices in the study area. Besides, homebuyers in Terengganu could have regarded sea, river, and mountain as the key sources of environmental amenity in a descending order. Results from both interviews and regression analysis have indicated that sea view as the most valued environmental amenity.

Jin and Zeng (2003) in their study developed a general equilibrium model that investigates the relationship between business cycle and residential investment as well as house prices. The study concludes that monetary policy and nominal interest rate affect real estate prices; taxation is also considered to have an effect on real estate market. Besides, a strong correlation between house prices and GDP was revealed.

Case et al (2000) in his study discussed the correlation of cross country real estate cycles and define the main determinants of real estate returns movements. It is considered that real estate cycles are defined by fluctuation of main economic variables which are correlated across countries. The fact that real estate is not portable but differentiated good contributes to the restriction of the competition across markets and countries; therefore the correlation between markets should be low. Despite that there is empirical evidence of the cross country co-movements in international property returns. The conclusion of the research is that cross country correlation of real estate markets is due to the influence of the global GDP movements. Real estate markets are considered to be affected by the GDP changes which are highly correlated across countries. GDP is also indicated as an important determinant of the real estate cycle by other researchers, cited below. The other inference of the study is that the real estate market is affected by the mix of global and local economic factors.

Smolen, Moore and Conway (1992) in a study presented another study of landfill impacts on housing prices. Their study focused on an existing landfill in the

Toledo, Ohio area and a proposed landfill in Sylvania, Michigan, near Toledo, from 1987 to 1990. The existing landfill was a depository for low level nuclear waste, and the proposed facility was to be of the same type. Smolen, Moore and Conway analyze price effects by distance from the existing landfill through a hedonic pricing model, with living space, number of half baths and distance to the landfill as the independent variables. They further divide the sales into three proximity rings and estimate separate equations for each ring. For the existing landfill, the results show a highly significant relationship between distance and price for houses located less than 2.6 miles from the facility. This effect lessens in the next ring, 2.6 to 5.75 miles and disappears from 5.75 miles out. The effect in the inner rings does not appear to change over time. For the proposed landfill, there was a significant distance effect following the announcement of the facility, which became insignificant once the proposal was rescinded. This is nearly the same finding as Kiel and McClain (1996). The finding that the price effects of the existing landfill do not diminish over time seems to be consistent with Reichert (1999).

Anand, S. (2010) in his study examined how the macroeconomic environment and monetary policy impact trends in house prices in different cities. Gill, A,S.P Sharma, H.S Mand, N. Mathur, 2012[4] .The globalization and the emergent of Multinational Corporation in India results to the growth of real estate market and economic growth. Moreover, growth of population, rising in income level, rapid urbanization factors influenced to the growth of Indian real estate market. Since the Indian real estate market is emerging market in under developed economy, the role of real estate investors' play and vital role of Indian economy

2.4. Valuation of Real Estate

Ratcliff, R.U.(1972) proposed a restatement of valuation theory emphasizing that valuation is a prediction of human behaviour under uncertainty. He discussed-transaction zones pointing out that depending on negotiation skills, any one of a range of prices might emerge from a sale process.

Babawale & Omirin M.M. (2011) : This study confirmed that individual characteristics of valuers in particular, and that of the firms they work for to a lesser degree, contribute significantly to valuation inaccuracy accounting for approximately 53% of inaccuracy in real estate valuation in the study area. This is in line with Levy and Schuck (1999). In particular, the valuers' years of experience and level of exposure made the strongest contribution to valuation inaccuracy in the study area. Experience and exposure of valuers refers to the duration, scope and depth of valuers' practice which have direct implications on skill acquisition and expertise. The average number of valuations undertaken by valuers over a given period of time also made unique significant contributions at the desired level of significance probably because this has a direct correlation with skill acquisition and expertise. In a similar study conducted in the UK by Bretten & Wyatt (2002), the respondent valuers were of the opinion that the principal cause of valuation inaccuracy is the knowledge and experience of valuers regarding the property type and more particularly the location. Going by the results, older and larger firms have not turned their long years in practice and/or their size to any advantage for improved services as inaccuracy is a phenomenon common to all firms in the study area regardless of their size and age.

Kimberly, Goodwin (2017) : Analyzing the physical and environmental factors in a real estate market analysis benefits the financial analysis in a number of ways. A thorough analysis of the location's physical and environmental factors provides accurate estimates of development costs. Property owners and developers can better determine the financial feasibility of any project. The analysis also allows owners to create better pro forma financial statements because they understand the conditions that ultimately influence the neighborhood rental rates. Paying attention to the physical and environmental factors of a property can help owners and developers to make the best financial decisions possible.

Mehmet Alkam & Ferihan Oztidam (2014) : It is essential to value real-estates which play a very important role in the economical and social life of man. Land valuation which has gained great importance in our country in recent years has not yet

been studied scientifically. Because of this finding different values for a real estate leads to some economical and social problems in property tax, nationalization, purchase and sale and banking. So valuing should be objective, correct and accredited considering the facts of quality, environment and usage conditions. As a result, an information system should be developed that can help a valuation expert to obtain social, legal and technical data on a real estate, reach its location easily and analyse certain information. It is possible to use Geographical Information Systems (GIS) that gather all data according to certain standards analyse them and present them effectively to the user. In this study, a design of system which is likely to help real estate valuation firms and valuation experts in the sector of valuing real estate's works efficiently, fast and fruitfully is aimed. Thus, the data which experts need, processing steps in the period of developing the system and software are presented. Then, the data based on appraising is carried out at a region of the Municipality of Yenişehir, Mersin. In the last stage, the data is stored; the inquiry is done on the data which is stored in the system. In this study, with designing system, obtaining the present data is become easier, comparing and checking appraising processes have been provided to valuation experts. In addition, job efficiency and improvement of success are presented to firms and valuation experts.

A formal theory of value is needed in order to articulate researchers' contemporary view of what a property is worth. It is only when the true economic value of an asset is ascertained that it is possible to determine whether a property is under or overpriced Brown and Matysiak (2000).

Mundy (1992) sets forth a conceptual and valuation framework that has influenced the appraisal profession. Reiterating the ideas of Patchin, Mundy (1992a) asserts that the "value paradigm" for contaminated property real estate damages is the difference between the value before, or "clean," and the value after, or "dirty." Mundy (1992) goes on to note that from a mathematical perspective, the difference ought to be the cost to cure or remediate the property. However, Mundy notes that in practice this is not the case since contaminated properties sell for less than the cost to

cure difference. Mundy ascribes this inconsistency to an additional effect on value termed stigma. Stigma in Mundy's framework is directly related to the level of uncertainty or risk associated with contamination which, in turn, is influenced by the amount of information the market has about the contamination and its remediation.

Victor Abaecheta Akujuru (2014) : The valuation of any property follows a process which if followed results in a reasonably consistent determination of value. While the valuation of properties usually traded in the market is reasonably rampant and within the everyday pre-occupation of the professional valuer, the valuation of contaminated land occurs occasionally and poses serious challenges to the valuer in the absence of any framework. The issue of contamination by oil pollution has been very rampant in the Niger Delta wetlands of Nigeria and valuers called upon to assess damages resulting there from have had to adopt valuation processes prescribed for marketable real properties and neglecting to value the ecosystem goods and services that exist in the wetlands, due to the absence of any framework for such valuations. The valuation methods used in valuing properties compulsorily acquired by Government being adopted in valuing contaminated properties including wetlands is contrasted with that used for assessing the compensable value of damages due to contamination and the existing valuation framework examined to confirm its applicability to valuing contaminated wetlands. This research aims to develop a framework for the assessment of the compensable value of damages due to contamination to wetlands by oil pollution in the Niger Delta wetlands.

The research adopts an inter pretivist philosophy, an abductive logic with a mixed method approach and a case study strategy to examine the valuation practice when faced with the challenge of valuing an oil contaminated wetland in the Niger Delta. The case study strategy afforded the opportunity to apply several data collection techniques and analysis. It is argued the behaviour of valuers is a subjective phenomenon that should be interpretatively studied to understand valuers' behaviour. Literature and documents were deductively analysed while a questionnaire survey was

conducted among the valuation firms and triangulated with data from semi-structured expert interviews of some purposively selected firms.

The increasing importance of real estate to the social, political and economic life of different economies has craved the indulgence of researchers into dearth of information for proper valuation of properties. Valuation provides the impetus for major property tax reforms and other public policy measures (Calhoun, 2001).

Kummerow, M. (2011) contends that the profession of real estate valuers arises because each real estate asset is different from all other properties since properties are heterogeneous. Researchers and practitioners have found that hundreds of factors might affect prices in various situations. Moreover, properties trade infrequently, perhaps once every 5-10 years for the average house. The amount of sales evidence varies widely in particular cases, but generally there are few sales of properties similar enough to be considered as comparables and none of identical properties.

The underlying theory of value of Sales comparison approach is that the value of the real estate is based upon the views of the typical buyer and seller of such property, independent of cost, to create or wear and tear (Miller and Geltner, 2005).

The underlying value theory of cost approach assumes that the value of the property is inherent in the cost to create the property based on land acquisition and building costless wear and tear and depreciation (Miller and Geltner, 2005).

Avitney, et al., (2006) identified 6 main steps concerning the valuation process. These included specifying the property legally and physically, the property rights related to the current estimate, the purpose of the valuation and the valuation date. Comparative market data is then gathered in which the skill, knowledge, and experience of the valuer become essential. The final step is to apply appropriate methods and techniques to derive the estimated value (Avitney, et al., 2006).

Sibel Selim(2008) said that Valuation of property is required by a number of players in the marketplace such as real estate agents, appraisers, brokers, property developers, investors, market researchers, analysts, other specialists and consultants.

2.5 Buying Behaviour

The features of the apartment structure itself will be an important determinant of a household choice of residence (Quigley, 1976). Neighbourhood quality, local public services and quantity of housing services also affect the choice of residence (Friedman, 1980; Gabriel and Rosenthal, 1989).

Louviere and Timmermans (1990) found that another important influences is property location.

According to Sidin, et al (2004) features of the apartment will be a significant determinant of a household choice of residence. This study makes a closer look into the attributes in respect of the three vital factors (viz. Price, Location and Quality)

Buying an apartment is one of the most significant economic decisions, and it requires gathering a lot of information regarding its features, noted Batra, S. K and Kazmi(2008) in their book on consumer behaviour.

Price, availability of easier loans has revolted the preferences and choices of consumer related to home buying decisions pertaining to buy a flat or residential villa (Jomon Lonappan, 2011).

A recent study by the present authors, Nasar K. K & Manoj P K (2013) has analyzed the behavior of real estate investors in making investment decisions, like the various personal and behavioral factors influencing their purchase decisions.

Salzman & Zwinkels (2013) also provided a broader explanation of psychology and social determination of real estate decision making.

Kathrvel, N., Vimalagracy, P. (2014) Factors like high demand, low supply and limited income especially for salary class consumers affects the buying in real estate. Therefore it is important for real estate marketer to understand the behavior of prospect and to identify the factors influencing the customer choices beginning of new development.

2.6 Research Gap

From the above Literature review the researcher has found that though various study have been carried out but mostly they are related to introduction of real estate, urban development and housing problems, Real estate pricing, buying behaviour etc. The researcher has found very few study related to valuation of real estate property in context of Guwahati City. The researcher had not come across any study related to valuation of real estate property in the State of Assam as well.

Moreover considering status of Guwahati City as gate way of North East India coupled with Government's Flagship concept of 'Act East Policy' as well as inclusion of Guwahati within Smart City Scheme of theme it is only but accepted that Guwahati City shall be witness and over whelming change in respect of use of real estate resources and therefore, such studies like the instant one becomes an inherent necessity. So, this study had been planned and carried out.