

### **Real Estate Finance in India**

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As per the World Investment Report 2016, India is ranked at the fourth position in developing Asia for FDI inflows. This endorsement resulted in visible equity investment in the real estate (henceforth referred as “RE”) sector last year which stood at \$5.7 billion. The RE industry has witnessed many upheavals. The book was published in 2014 when the RE industry was on a high and the future seemed bright and sunny. However, in a very short span of time the industry had taken a turn for the worse and showed signs of an overcast sky triggered by a sharp decline. Thus, one may say this book is quite timely coming at a juncture where the highs of the last decade had generated a lot of interest in the market and the recent past lows have given the industry time to introspect, learn and grow again, which is evident from recent reports.

A quality book on RE has been long overdue. More so coming in equal parts from two different vantage points of an Academician (Prashant Das) and a Practicing Consultant (Divyanshu Sharma), the book promises to bring to the reader a comprehensive yet crisp picture of RE finance in India. More so, the attempts by the authors to capture snapshots of the industry from various other vantage points (through inputs from the likes of: ex-president, CREDAI, Karnataka; chairman and MD, Indian Overseas Bank; the director of RE programs at Henley Business School, University of Reading UK; architect and urban planners working on social housing; green project consultant at Integrated Environmental Solutions (IES) Ltd, Atlanta; MD, strategic consulting, Jones Lang LaSalle, India, etc.) definitely spike up the interest in the collage so created.

The authors, in their own words, attempt to – “[...] Emphasise the excellent body of knowledge extant in the international literature and rather interpret several of these in the Indian context.” The effort so made is done through exploration of central themes – functioning, instruments and Strategic Consulting, decision analysis related to home loans and residential mortgage banking also extended to RE borrowing and secondary markets. However, the effort could have gone to the dogs had it not been for the elaborate, at times tending to ornate, usage of realistic scenarios, examples, expert opinions, illustrations, exercises, and practice problems.

Also, the well-intentioned authors avoid excessive use of technical jargon and adopt a conversational style thereby eliminating the need for a prerequisite course or prior exposure to the industry. Thereby making the book apt for an audience which includes the current/prospective RE investor and the pursuant of university-level education in RE.

The book begins with an introductory chapter on RE finance through a number of brief discussions on the definition of RE and RE finance, characteristics of RE markets, careers in RE, and the need for an RE specialization in India. The introduction concludes with a lucid



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description of how RE sector works in a national economic system with various stakeholders, captured and represented through the RE Activities model by Dr Julian Diaz III.

The introductory chapter is then followed by four other chapters familiarizing the readers with critical concepts of time-value-of-money, cash flow, mortgage banking in India, fixed-rate mortgage and alternate mortgage types (like reverse mortgage and floating-rate mortgage). Thus, attempting to equip the beginner with tools to aid financial decision making based on numerical analysis and an appropriate understanding of debt financing, leverage, mortgage deeds its types and rates.

With this, the authors shift their focus from a micro to a macro perspective. So far the book dealt with the individuals' decision making related to acquiring and disposing of RE, but henceforth the book switches its focus onto the management of RE companies, interest rates, property markets, and capital markets.

The first of the next four chapters cover the most salient concepts of financial statement that are relevant to RE, i.e. balance sheet, income statement, and cash flow. The intention is to swiftly acquaint and equip the reader to understand and critique the basic elements of financial statements of RE companies; financially analyze depreciation and its types; understand the various types of taxes imposed on RE companies; calculate and analyze basic financial ratios.

The section on interest rates relates the RE finance to a broader set of economic phenomena. In particular, this chapter reviews the movement of interest rates and property prices in relation to the macroeconomic developments in the monetary or fiscal policy. It also describes the varied mechanisms deployed by Reserve Bank of India (in form of bank rate, cash reserve ratio, repo rate, reverse repo rate, etc.) and how any revisions in interest rates indirectly through the cycle of capitalization feedbacks into interest rate revisions.

The discussion on property markets is envisioned to develop an insight into the various types of RE markets and differentiate between them. The authors also bring to light the Wheaton-DePasquale Four Quadrant Model which provides a convincing graphical relationship between space markets, asset markets, development markets and construction markets. The chapter focuses highly on the concept of market efficiency and analyses in detail the reasons for market inefficiency in Indian RE. Broadening the discourse on Indian RE, the authors bring forward their dialogue, examining the Indian RE in contexts of transparency and efficiency, with international and national academicians.

Lastly, before moving on to the concluding chapter, the authors bring up the discussion of capital markets accessible to Indian RE. This endeavor had a goal to develop multiple abilities to understand the elements and functioning of debt and equity markets; distinguish between primary and secondary mortgage markets; identify the process of securitization and mortgage instruments; and understand the basics of stock markets in the context of RE. Additionally, the authors look to develop in the reader an understanding of the basics of RE investment trusts (REITs) in the Indian context and also touch upon the readiness of the nation for REITs and the challenges one may face.

As a concluding section, the authors consolidate expert views from the industry of some relevant areas that deserve further attention. Areas that are relevant in the context of RE industry in India like, future of mortgage finance; shortcomings in housing finance; strategic consulting and its future; infrastructure needs; affordable housing finance; and Green RE.

By the end of this book, one definitely realizes that the book stands true to the authors' claim of capturing the excellent body of knowledge extant in the international literature and reinterpreting these in the Indian context. Unlike elsewhere the authors here have been able to capture rich micro snapshots from the individual stakeholders' vantage and then collating them into a larger macro perspective collage of RE industry in general and about Indian RE markets in particular.

Thus this book may be classified as a decent primer to understanding RE in India. However, the book just stops at this and definitely falls short of bringing much value to anybody other than a beginner.

Nevertheless, considering the scarcity of academic books specifically addressing the Indian context; the need of the hour; and the vast and complex area of RE finance this book is definitely a good first step for the reader. Also, this can be endorsed as a decent first step by the authors in the direction of developing an academic specialization in RE in India, but can we expect the authors to follow this up with a second step is something we would have to wait and watch.

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