

Impact of Demonetisation on Selected Stocks of Real Estate Sector

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Abstract: - Real Estate sector is one of the most sensitive sectors of an economy that reflects the economic policy changes. The tax reforms, demonetization, interest rate cuts or volatility in stock markets, all have affected the real estate sector. Both the common man or upper class of this country are affected by changes in real estate sector, as they are parking centre for excess funds for all.

This study is an empirical research of the impact of Demonetization on the stocks of Indian Real estate sector. The Objectives of the study were (1) To analyse selected Reality sector stock returns pre and post demonetisation and (2) To analyse Reality Index Returns pre and post demonetisation. 6 of the top real estate companies of 2017 were considered for the study. The selected companies were DLF, Oberoi Realty, Prestige Estates, Godrej Properties, HDIL and Sobha. The share prices of Companies were taken from BSE Website. The period from October 2015 to November 2016, was considered as pre demonetisation period. The period from October 2016 to November 2017 was considered as post demonetisation period.

Out of the 6 companies analysed, the stock prices of 5 companies have increased after Demonetisation. This implies that demonetisation had a positive impact on reality sector stocks. The Reality Index returns have increased in one year period after demonetisation, compared to a one year period before demonetisation.

The involvement of black money and cash transaction in real estate sector was considerable. The passing of RERA (Real Estate Regulation and Development Act 2016), the Benami Transactions Act and now the demonetization will ensure that going forward will become more transparent and will definitely lose its historic taint. These regulations would also prevent investors from getting cheated and buy properties of their choice at affordable prices, the place where they want to and the timely possession will also be assured.

Key Words: Real estate, Investment, Demonetization, stocks returns

I. INTRODUCTION

Real Estate sector is one of the most sensitive sectors of an economy that reflects the economic policy changes. The tax reforms, demonetization, interest rate cuts or volatility in stock markets, all have affected the real estate sector. Both the common man or upper class of this country are affected by changes in real estate sector, as they are parking centre for excess funds for all. The revenue from rent or leases and

appreciation of the real estate's value are two avenues for profits from real estate investments. Income can also come from the indirect investments, like real estate investment trusts (REITs), which trade like stocks, with real estate as their underlying security.

II. REAL ESTATE – AN ATTRACTIVE INVESTMENT AVENUE

People invest in Real estate as for various reasons. The most important reason is that they are safe investments. Also understanding the returns and risk in real estate is perceived to be less complicated to research in stocks and shares. Home loans are available today, if documents are proper. One can also use homes for leverage. Interests on home loans give tax advantages. The biggest benefit is that the asset can be passed on to the next generation.

III. FACTORS AFFECTING THE REAL ESTATE DEMAND IN INDIA

The real estate demand in India was subjected to fluctuations since economic liberalization in 1991. The period 2001-2008 saw high growth in the real estate sector, but it experienced tremendous slowdown from 2008 to 2014. At present, this sector is again witnessing growth in some parts of the country.

The demonetisation initiative by the Indian government in November, 2016, impacted the purchasing power of people. But during 2016, the government also announced other reforms like Real Estate Regulation Act (RERA), Benami Transactions Prohibition Act, amendments in REITs (Real Estate Investment Trusts) and Goods and Services Tax (GST) which attracted investors to invest in the real estate (Arora, 2017). As a result the Housing Price Index (HPI) for the third quarter of 2016 increased by 2.3% (Sharma, 2017). Also, the real estate sector is estimated to be valued at US\$ 180 billion in 2020 from US\$93.8 billion in 2014. This means the real estate demand is all set to increase.

Increased affordability, rapid evolution of nuclear families, increasing income, attractive supply rate of dealers, lower interest rates customer's confidence and mortgage availability increases the real estate demand in India. (Sharma, 2017).

IV. DEMONETISATION AND REAL ESTATE SECTOR

Demonetisation created a lot of confusion and uncertainty to the realty sector. It impacted the sales of real estate units in all major cities. The sales dip was as high as 40% while new project announcements fell by 11% immediately after demonetization.

Barring this short run decline in sales, for real estate markets, demonetisation brought in the aspects of transparency. Curbing cash transactions was the first step taken in this direction. Demonetisation is expected to bring back the standardization in real estate markets. Real Estate Developers are now in an improved position to avail formal business finance for their projects. Demonetisation has already resulted in a major reduction of home loan rate interest rates, and they are expected to reduce further. Developers offering incentives and discounts to buyers are maintaining their position in a market which is now ideal for serious end-users. Hence the market price will hopefully reflect the true price for real estate properties, and not an inflated price tag.

The end-users are awaiting a further price correction as their cash savings have also gone back into the banking system and is invested into other sources of investments such as Stocks, bonds, precious metals or Forex markets.

V. LITERATURE REVIEW

In India, construction is the second largest industry after Agriculture. 2016-17 had seen active Government intervention in terms of the Demonetization, Real Estate Regulatory Act and GST In India. This complimented with lower Real Estate Rates, Lower Interest Rates and better Incentives to customers to purchase homes will go a long way in rebuilding the entire Real Estate Industry (Jonardankoner et.al, 2018)

Kumar Sanjeev remarked in 2017 that demonetization is a bold decision that paves the way towards elimination of Black money and the cash transaction dealing in real estate sector. The author studied the impact of demonetization on Real estate in terms of Governance, Price of real estate, Reformation, sectoral growth, Foreign Direct Investment, Social affordability, Policy and Interest rate. Demonetization reduced the liquidity of cash driven real-estate market. However, in long run it will bring much needed efficiency, transparency & affordability in the economy.

The real estate market in India has already been witnessing a slow growth and with demonetisation, the sector has become stagnant and will remain this way till there is clarity over money circulation and transactions. Unaccounted money or black money has been affecting the Indian economy for a while and the real estate sector is believed to be a popular channel for such funds. While many have welcomed this move, some have expressed their concern for the real estate market. (T.Sridevi & Pragyana Parimita Sarangi, 2017)

VI. RESEARCH METHODOLOGY

This study is an empirical research of the impact of Demonetization on the stocks of Indian Real estate sector. The returns of realty stocks are analysed for the pre and post demonetisation period. The Objectives of the study were (1) To analyse selected Realty sector stock returns pre and post demonetisation and (2) To analyse Realty Index Returns pre and post demonetisation. 6 of the top real estate companies of 2017 were considered for the study. The selected companies were DLF, Oberoi Realty, Prestige Estates, Godrej Properties, HDIL and Sobha. The share prices of Companies were taken from BSE Website (www.bseindia.com).

VII. DATA ANALYSIS

This section analyses the stock return of companies before and after Demonetization. The period from October 2015 to November 2016 was considered as pre demonetisation period. The period from October 2016 to November 2017 was considered as post demonetisation period.

The mean stock return of Godrej Properties before demonetisation is -0.59648. Post demonetisation, the mean stock return of Godrej Properties was 5.685843 (Table 1). The Stock of DLF has recorded average positive return of 0.752372 from a period of October 15 to November 16 and an average positive return of 4.384959 from a period of October 16 to November 17 (Table 2). The Stock of HDIL has recorded average negative return of -0.34432 from a period of October 15 to November 16 and an average negative return of -1.18026 from a period of October 16 to November 17 (Table 3). The Stock of Prestige Estates has recorded average negative return of -1.6931 from a period of October 15 to November 16 and an average positive return of 4.746031 from a period of October 16 to November 17 (Table 4). The Stock of Oberoi Realty has recorded average negative return of 0.564596 from a period of October 15 to November 16 and an average positive return of 2.765568 from a period of October 16 to November 17 (Table 5). The Stock of Sobha has recorded average negative return of -1.45091 from a period of October 15 to November 16. The Stock of Sobha has recorded average positive return of 6.781787 from a period of October 16 to November 17 (Table 6).

The Realty Index has recorded average negative return of -0.08122 from a period of October 15 to November 16 and an average positive return of 3.925582 from a period of October 16 to November 17 (Table 7).

VIII. FINDINGS

The stock returns of Godrej Properties have increased in one year period after demonetisation, compared to a one year period before demonetisation. The stock returns of DLF have decreased in one year period after demonetisation, compared to a one year period before demonetisation. The stock returns of HDIL have decreased in one year period after demonetisation, compared to a one year period before

demonetisation. The stock returns of Prestige Estates have increased in one year period after demonetisation, compared to a one year period before demonetisation. The stock returns of Oberoi Realty have increased in one year period after demonetisation, compared to a one year period before demonetisation. The stock returns of Sobha have increased in one year period after demonetisation, compared to a one year period before demonetisation.

Summary table of Reality stock returns before and after demonetisation

Stock	Pre Demonetisation return	Post Demonetisation return	Increase / Decrease
Godrej Properties	-0.59648	5.685843	Increase
DLF	0.752372	4.384959	Increase
HDIL	-0.34432	-1.18026	Decrease
Prestige Estates	-1.6931	4.746031	Increase
Oberoi Realty	0.564596	2.765568	Increase
Sobha	-1.45091	6.781787	Increase

Out of the 6 companies analysed, the stock prices of 5 companies have increased after Demonetisation. This implies that demonetisation had a positive impact on reality sector stocks.

The Reality Index returns have increased in one year period after demonetisation, compared to a one year period before demonetisation.

IX. CONCLUSION

The involvement of black money and cash transaction in real estate sector was considerable. The passing of RERA (Real Estate Regulation and Development Act 2016), the Benami Transactions Act and now the demonetization will ensure that going forward will become more transparent and will definitely lose its historic taint. These regulations would also prevent investors from getting cheated and buy properties of their choice at affordable prices, the place where they want to and the timely possession will also be assured.

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TABLES

Table 1: Calculation of stock returns of Godrej Properties

Before Demonetisation			After Demonetisation		
Month	Closing Price	Stock return	Month	Closing price	Stock return
Oct-15	343.25		Oct-16	364.35	
Nov-15	337.1	-1.7917	Nov-16	301.1	-17.3597
Dec-15	337.85	0.222486	Dec-16	302.7	0.531385
Jan-16	301.4	-10.7888	Jan-17	331.4	9.481335
Feb-16	268	-11.0816	Feb-17	363.5	9.68618
Mar-16	296.3	10.5597	Mar-17	385.55	6.066025
Apr-16	341	15.08606	Apr-17	464	20.34756
May-16	330.35	-3.12317	May-17	492.6	6.163793
Jun-16	365.75	10.71591	Jun-17	519.5	5.46082
Jul-16	362.4	-0.91593	Jul-17	522.85	0.644851
Aug-16	358.95	-0.95199	Aug-17	578.5	10.64359
Sep-16	346.85	-3.37094	Sep-17	619.1	7.01815
Oct-16	364.35	5.045409	Oct-17	678.2	9.546115
Nov-16	301.1	-17.3597			
Mean return		-0.59648	Mean return		5.685843

Table 2: Calculation of stock returns of DLF

Before Demonetisation			After Demonetisation		
Month	Closing price	Stock return	Month	Closing price	Stock return
Oct-15	116.6		Oct-16	150.15	
Nov-15	115.2	-1.20069	Nov-16	115.05	-23.3766
Dec-15	116	0.694444	Dec-16	111.35	-3.21599
Jan-16	96.4	-16.8966	Jan-17	134.95	21.19443
Feb-16	89.05	-7.62448	Feb-17	150.45	11.48574
Mar-16	114.6	28.69175	Mar-17	148.7	-1.16318
Apr-16	129.4	12.91449	Apr-17	186	25.08406
May-16	129.85	0.347759	May-17	179.65	-3.41398
Jun-16	150	15.51791	Jun-17	190.7	6.150849
Jul-16	162.1	8.066667	Jul-17	193.4	1.415836
Aug-16	155.2	-4.25663	Aug-17	185.05	-4.31748
Sep-16	146.2	-5.79897	Sep-17	164	-11.3753
Oct-16	150.15	2.701778	Oct-17	201.15	22.65244
Nov-16	115.05	-23.3766	Nov-17	233.1	15.88367
Mean return		0.752372	Mean return		4.384959

Table 3: Calculation of stock returns of HDIL

Before Demonetisation			After Demonetisation		
Month	Closing Price	Stock Return	Month	Closing price	Stock return
Oct-15	72.6		Oct-16	82.7	
Nov-15	71.25	-1.8595	Nov-16	61.95	-25.0907
Dec-15	77.7	9.052632	Dec-16	59.85	-3.38983
Jan-16	73.15	-5.85586	Jan-17	62.45	4.344194
Feb-16	61.45	-15.9945	Feb-17	68.9	10.32826
Mar-16	72.95	18.7144	Mar-17	81.85	18.79536
Apr-16	86.05	17.95751	Apr-17	90.8	10.93464
May-16	97.15	12.89948	May-17	89.2	-1.76211
Jun-16	103.25	6.27895	Jun-17	85.1	-4.59641
Jul-16	101.9	-1.30751	Jul-17	86.9	2.115159
Aug-16	92.6	-9.12659	Aug-17	62.1	-28.5386
Sep-16	79.6	-14.0389	Sep-17	56.45	-9.09823
Oct-16	82.7	3.894472	Oct-17	59.2	4.871568
Nov-16	61.95	-25.0907	Nov-17	62.6	5.743243
Mean return		-0.34432	Mean return		-1.18026

Table 4: Calculation of stock returns of Prestige Estates

Before Demonetisation			After Demonetisation		
Month	Closing Price	Stock return	Month	Closing price	Stock return
Oct-15	203.9		Oct-16	193	
Nov-15	204.25	0.171653	Nov-16	152.95	-20.7513
Dec-15	194.35	-4.847	Dec-16	171.2	11.932
Jan-16	186.4	-4.09056	Jan-17	164.75	-3.76752
Feb-16	149	-20.0644	Feb-17	170.85	3.70258
Mar-16	172.35	15.67114	Mar-17	216.6	26.77788
Apr-16	168.5	-2.23383	Apr-17	235.65	8.795014
May-16	185.65	10.17804	May-17	242.1	2.73711
Jun-16	184.55	-0.59251	Jun-17	251.45	3.86204
Jul-16	184.9	0.189651	Jul-17	268.4	6.740903
Aug-16	185.7	0.432666	Aug-17	274.25	2.179583
Sep-16	192.75	3.796446	Sep-17	272.5	-0.6381
Oct-16	193	0.129702	Oct-17	303.95	11.54128
Nov-16	152.95	-20.7513	Nov-17	330.05	8.586939
Mean return		-1.6931	Mean return		4.746031

Table 5: Calculation of stock returns of Oberoi Realty

Before Demonetisation			After Demonetisation		
Month	Closing price	Stock return	Month	Closing price	Stock return
Oct-15	284.8		Oct-16	359.35	
Nov-15	259.6	-8.84831	Nov-16	284.15	-20.9267
Dec-15	268.1	3.274268	Dec-16	294.75	3.730424
Jan-16	242.7	-9.47408	Jan-17	311.05	5.53011
Feb-16	230.85	-4.88257	Feb-17	323.45	3.986497
Mar-16	241.75	4.721681	Mar-17	367.85	13.72701
Apr-16	279.35	15.55326	Apr-17	396.4	7.761316
May-16	270.2	-3.27546	May-17	376.85	-4.93189
Jun-16	271.95	0.647668	Jun-17	358.15	-4.96219
Jul-16	289.65	6.508549	Jul-17	387	8.055284
Aug-16	303.25	4.695322	Aug-17	379.8	-1.86047
Sep-16	292.1	-3.67683	Sep-17	423.35	11.46656
Oct-16	359.35	23.02294	Oct-17	473.3	11.79875
Nov-16	284.15	-20.9267	Nov-17	485.5	2.577646
Mean return		0.564596	Mean return		2.765568

Table 6: Calculation of stock returns of Sobha

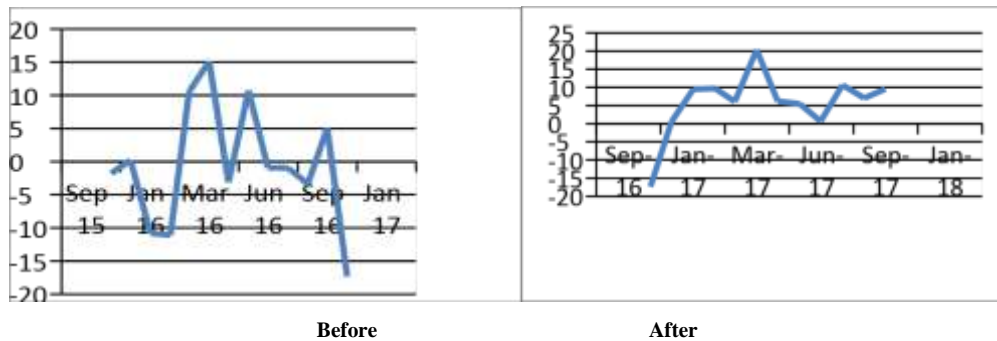
Before Demonetisation			After Demonetisation		
Month	Closing price	Stock return	Month	Closing price	Stock return
Oct-15	324.2		Oct-16	284.1	
Nov-15	308.9	-4.71931	Nov-16	254.6	-10.3837
Dec-15	310.5	0.517967	Dec-16	246.35	-3.24038
Jan-16	288.15	-7.19807	Jan-17	259.95	5.520601
Feb-16	239.15	-17.005	Feb-17	290.55	11.77149
Mar-16	273.15	14.21702	Mar-17	342.2	17.77663
Apr-16	292.8	7.19385	Apr-17	371.65	8.606078
May-16	304.9	4.132514	May-17	370.75	-0.24216
Jun-16	326	6.920302	Jun-17	369.55	-0.32367
Jul-16	334.1	2.484663	Jul-17	398	7.698552
Aug-16	286.35	-14.2921	Aug-17	393.75	-1.06784
Sep-16	292.15	2.025493	Sep-17	388.4	-1.35873
Oct-16	284.1	-2.75543	Oct-17	508.9	31.02472
Nov-16	254.6	-10.3837	Nov-17	622.8	22.38161
Mean return		-1.45091	Mean return		6.781787

Table 7: Calculation of returns of reality index

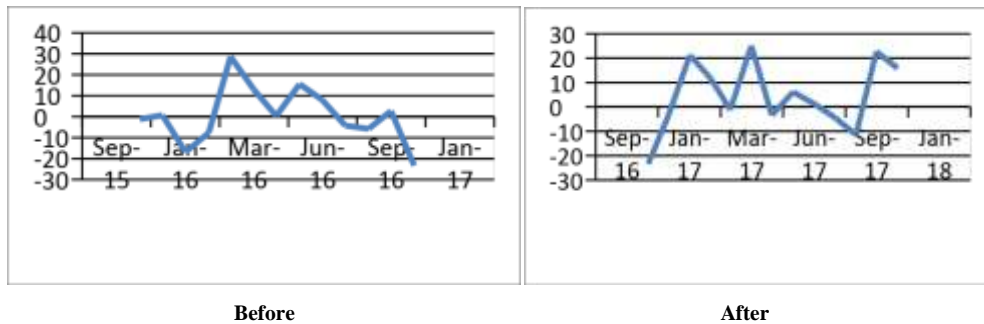
Before Demonetisation			After Demonetisation		
Month	Closing Prices	Stock return	Month	Closing Prices	Stock return
Oct-15	1371.63		Oct-16	1556.14	
Nov-15	1343.89	-2.02241	Nov-16	1281.82	-17.6282
Dec-15	1344.33	0.032741	Dec-16	1263.94	-1.39489
Jan-16	1208.95	-10.0704	Jan-17	1369.73	8.369859
Feb-16	1051.08	-13.0584	Feb-17	1495.06	9.149978
Mar-16	1228.35	16.86551	Mar-17	1599.97	7.01711
Apr-16	1356.71	10.44979	Apr-17	1923.92	20.24725
May-16	1421.08	4.744566	May-17	1931.11	0.373716
Jun-16	1532.82	7.863034	Jun-17	2043.23	5.805987
Jul-16	1607.07	4.844013	Jul-17	2186.28	7.00117
Aug-16	1542.1	-4.04276	Aug-17	2137.67	-2.22341
Sep-16	1512.19	-1.93956	Sep-17	2065.41	-3.38032
Oct-16	1556.14	2.906381	Oct-17	2301.28	11.42001
Nov-16	1281.82	-17.6282	Nov-17	2445.67	6.274334
Average return		-0.08122	Mean return		3.925582

GRAPHS

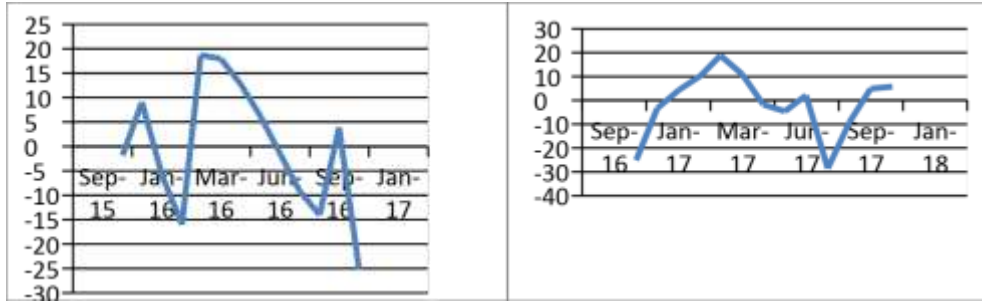
Graph 1&2: Analysis of stock prices of Godrej Properties before and after demonetisation



Graph 3 & 4: Analysis of stock prices of DLF before and after demonetisation



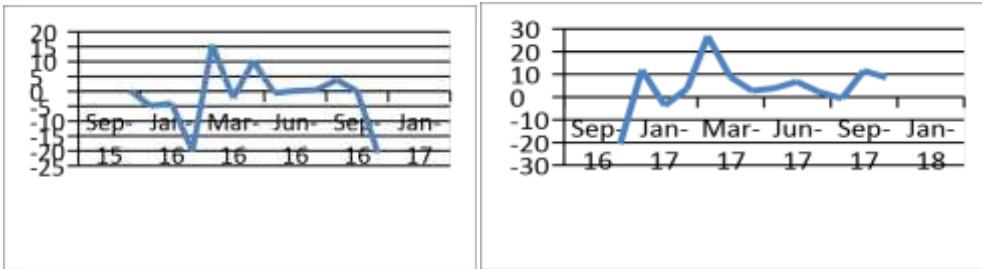
Graph 5 & 6: Analysis of stock prices of HDIL before and after demonetisation



Before

After

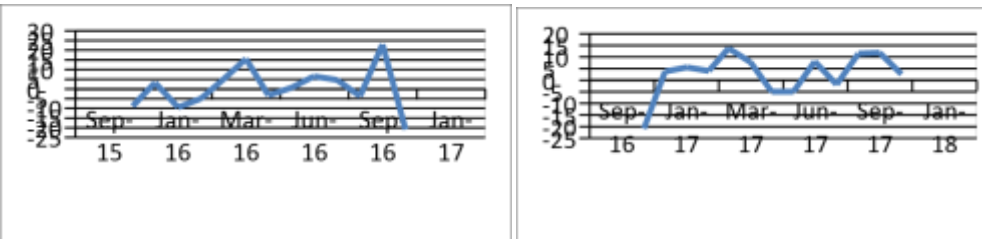
Graph 7& 8: Analysis of stock prices of Prestige Estates before and after demonetisation



Before

After

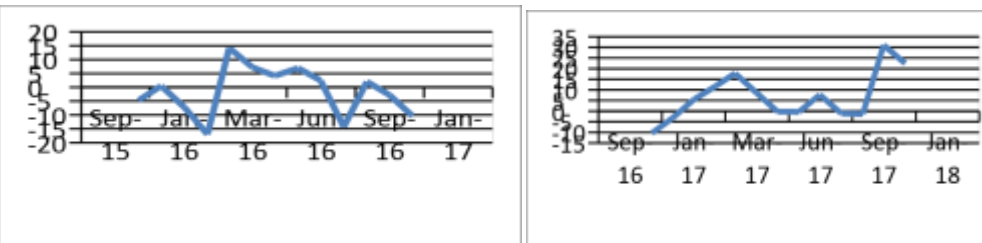
Graph 9 & 10: Analysis of stock prices of Oberoi Realty before and after demonetisation



Before

After

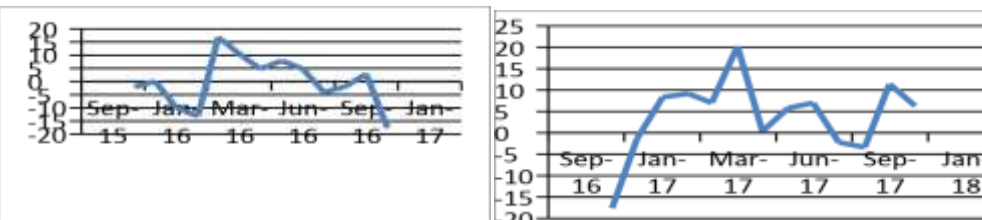
Graph 11&12: Analysis of stock prices of Sobha before and after demonetisation



Before

After

Graph 13 & 14: Analysis of realty index returns before and after demonetisation



Before

After