

# A Study of the Emerging Trends in Indian Residential Real Estate Structure in Bangalore

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## ABSTRACT

*The present study examines emerging preferences of residential buyers in Bangalore's housing market. The buyer preferences are studied mainly to understand the housing structure coupled with facilities as offered by developers and desired by the customers. The study to large extent will help developers in Bangalore to create the right product offer for interested buyers and they should be able to increase their sales and revenues by offering the same. Most of the information available in real estate sector is about the preferred market, destination location or developer in particular market but the information on amenities and facilities desired by customers to make it convenient for them to stay, are not adequately available. The taste of customers is changing with their increased disposable income, fast-paced life and impact of self-service technology that has made some characteristics in housing projects less important and developed some innovative characteristics. This study brings out these preferences.*

*The variables covered in the study are type of housing prospective customers want to purchase, size of house/ apartment they are looking for, size of the property, their budget, possession date, primary criterion to meet while purchasing the residential property, vastu , puja room and servant room preferences, preference in style of kitchen, balcony usage purpose, flooring preference, window preference, amenities preference, maintenance payment preference, views on residential properties being sold online, preference in smart homes and green buildings, and last but not the least, perceptions of top developers in Bangalore.*

*The study also examines associations between some of the variables above, including gender and age differences in primary purchase criterion, preference for vastu, puja room, and servant room, and preference for smart homes with green buildings, and so on*

**Keywords:** Buyers' Preferences, Residential Housing Market, Housing Market Segment

## INTRODUCTION

The requirement for an adequate housing is not only the basic human need of an individual, it also serves other purposes, such as a place for social interaction, love and affection of family members, and, for some, esteem. This study addresses this fundamental human need by providing detailed insights into Bangalore city's housing market.

The real estate sector in India includes the commercial, organised retail, and hospitality spaces along with residential housing sector.

### The Bangalore Housing Market

Bangalore, the capital and largest city of Karnataka, known as the 'Silicon Valley of India,' has become one of Asia's fastest growing cities since the emergence of

the information technology (IT) and IT-enabled services (ITeS) industry. It contributes about 33% of Indian IT exports, and houses over 800,000 IT/ITeS professionals, accounting for about 55% of the total demand of the organised real estate market. Thus, the city's residential demand is mainly led by growth and performance of the IT/ITeS sector. Bangalore was popularly known as a 'Pensioners' Paradise' and Garden City for its delicate blossoms and greenery that imparts a unique beauty to it.

The Bangalore real estate market is considered to be one of the most stable markets in India. Whilst Bangalore has performed better than many other markets such as Gurgaon, it has still suffered from similar issues of oversupply and decreasing margins. According to the LJ Hooker Mid-Year Report (2014), the slowing real estate market has mirrored the slowing economy with sales velocities stuck at less than 2% and the GDP at sub 5% rates. For the property markets to move forward the new central government will have to address the key macro

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areas that affect growth as well as controlling inflation to ensure that the RBI reduce interest rates.

According to the LJ Hooker Mid-Year Report (2014), there is currently huge oversupply in the premium segment (houses valued at Rs. 1-3 crore), with the oversupply in the last quarter of 2013, hitting 218%. This exerted a great deal of pressure on builders in the second half of 2014 to liquidate their inventories (about Rs. 65,411 crore). In 2014, new launches decreased in Bengaluru by 13% (third in India, Mumbai-43%, NCR-24%). Sales too have fallen by 3% (55,701 residential units sold) in 2014. There were 100,968 residential units unsold in Bengaluru in 2014 (knightfrank.com).

Builders are still finding it difficult to sell their older inventory as the real market prices have failed to keep up with their list prices. The trend emerging is that in virtually all projects resale stock is coming onto the market at significantly less than the builders' list price, and in many cases still not finding buyers. With increasing labour and materials costs, high borrowing costs, and slow sales, many builders are entering a very uncomfortable cash crunch and have little room to move with their prices to stimulate sales. Given the tight lending criteria from the financial sector there are limited options available. This requires builders to keep prices at market levels and have offers that engage buyers. Given the build-up of unsold inventory and the pressure to drive cash flow, there will obviously be some aggressive competition.

Amid piling inventory levels of unsold houses, RBI Governor Raghuram Rajan in August 2015 said the larger need is to push demand by a price cut by the real estate developers. "I think we need the market to clear. With growing unsold stock, we need to see the ways to do it. Some of it might be by making loans easier, but we also don't want to create a situation where prices stay high at the level which means demand can't pick up," Rajan said at the SBI Conclave<sup>1</sup>.

This study examines the above mentioned problems that the Bangalore residential market is now facing by studying the buyers' preferences and finding out what they are exactly looking for now.

Laskar and Murthy (2011) studied the opportunities and challenges faced by the Indian construction industry. They highlighted the use of various new technologies and deployment of project management strategies which have made it possible to undertake projects of mega

scale. However, they pointed out that the industry still faces some major challenges, including housing, disaster-resistant construction, water management, and mass transportation.

The Report on Trend and Progress of Housing in India (2012) by National Housing Bank describes the dynamics of the housing market in India. The National Housing Bank was established by the Reserve Bank of India in 1988 in order to promote private real estate acquisition. The primary focus in its yearly report of NHB is the availability of affordable housing and some of the impediments include overpopulation of certain areas, the lack of affordable finance, infrastructure and regulatory hurdles. Urbanisation has led to demographic changes across the country.

## DATA & METHODOLOGY

### Objectives of the Study

- To study the housing market segments of Bangalore.
- To identify consumers' motivations, deterrents and inhibitors of choice of housing projects.
- To understand the residential property buyers' preferences and ongoing trends during this tough phase the industry is through.
- To determine price perceptions and feature preferences of consumers.

The study is a descriptive research study addressing the housing preferences of customers. The data for the study was collected using a structured questionnaire, to understand the housing preferences of the people in Bangalore, their budget, their views in the recent trends in the industry and the preferences of top developers based on brand and quality. The sample size for the study was one hundred respondents, selected by convenient sampling by mall intercept method in different locations of Bangalore.

The relationship between prime criterion with gender, kitchen style preference with gender and smart homes preference with green buildings is analysed using chi-square analysis. Further, factor analysis is used to group different amenities related to each other. Lastly, Friedman test is performed to find out the top developers' (in Bangalore) rankings based on brand and quality.

### Observations & Analysis

**The type of housing the buyers intended to purchase:** 52% of buyers preferred to purchase apartments, 35%

<sup>1</sup> <http://www.financialexpress.com/article/industry/companies/raghuram-rajan-asks-realty-developers-to-bring-down-prices/122657/>

villas, 8% penthouses, and 5% row houses. Buyers who opted for apartments want to majorly be within the city region, while those who opted for villas want to have more of a peaceful environment. Apartments are more economical as compared to villas, but many buyers do not like apartments in a residential complex mainly due to lack of space and privacy, preferring villas instead. A villa can be built by an individual with approximately the same price he can buy an apartment in the city. The only negative thing about villa housing is that it will not have the amenities a residential complex will have. Penthouses are preferred by buyers who have a higher budget and who want elegance in their property. Row houses are the least preferred because they lack privacy in a gated community, and they too require a higher budget.

**The preferred number of bedrooms:** 3% of the buyers preferred single bedroom housing, 26% preferred two-bedroom housing, 55% three-bedroom, 14% four-bedroom, and 2% five-bedroom housing. Typically, buyers tend to live in extended or joint families, and that is why they prefer three-bedroom housing irrespective of the area of the property. For nuclear families, the third bedroom can always be used as a guest room, or it can be converted into a study room or puja room. The third most preferred is four-bedroom housing, and these are mainly preferred by buyers who prefer penthouses or villas, i.e. buyers who want more space and are willing to pay more for it.

**The preferred apartment size:** Of the 52% of buyers who preferred apartments, the preferred apartment sizes were as follows: 13.5% preferred 1000-1200 sq.ft. apartments, 32.7% preferred 1200-1400 sq.ft., 17.3% preferred 1400-1600 sq.ft., 17.3% preferred 1600-1800 sq.ft., 11.5% preferred 1800-2000 sq.ft., and 7.7% preferred 2000+ sq.ft. Thus, most of the buyers preferred two-bedroom apartments (1000-1400 sq.ft.), followed by three-bedroom apartments (1400-1800 sq.ft.), perhaps due to affordability.

**The preferred budget for purchasing housing:** 44% of the buyers had a budget of Rs. 25-75 lakhs, 30% had a budget of Rs. 75-125 lakhs, 15% had a budget of Rs. 125-175 lakhs, and 11% had a budget of Rs. 175+ lakhs. This means that developers should focus more on economy housing in their upcoming projects.

**The preferred mode of maintenance payment:** The preferred mode was monthly payments (57%), as against lump-sum advance (43%). Lump-sum advance is a method payment where the buyer pays a lump-sum amount up-front to the developer during the time of possession of the property for maintenance purpose. The

developer earns an interest on this lump sum amount and maintains the property for a certain number of years without charging the occupant anything extra during this tenure for maintenance. After the tenure is over, the lump-sum amount is adjusted as required for the maintenance need, and the same process repeats.

**The primary purchase criteria:** It included connectivity (40%), peaceful environment (27%), quality (12%), locality (8%), amenities (8%), and budget (5%). It is also surprising to note that budget is the least prevalent as the prime criterion to meet while purchasing a residential property. This may be because brand and trust of developers plays a crucial role in this industry and not price; buyers do not want to risk their hard earned savings when they are purchasing a new home with it.

**The preferred kitchen style:** The preference was for closed kitchen (77%) rather than open kitchen (23%). Open style of kitchen is more of a western concept where the kitchen is mostly dry, and very moderate cooking is done; nevertheless, there is a moderate trend towards this concept.

**The preferred use of balcony:** Respondents stated their preference for using the balcony to relax (28%), for gardening (24%), to socialise (16%), for the view (15%), to read (6%), to dry clothes (6%); and 5% of the respondents expressed no requirement for a balcony. Some buyers don't prefer a balcony because they think it's a waste of money to have a balcony included in their carpet area, which they won't be using much. They would instead prefer the balcony area to be included in a room, which they can fully utilise.

In particular, 60% of the buyers preferred to have a balcony at the cost of reduced carpet area even when they were provided with a utility area, while 40% did not prefer to have a balcony, as this would compromise their carpet area. A utility area is provided by good developers in Bangalore for every unit, where the washing and drying of clothes can be done. It is a semi-opened area with grills (very similar to a balcony). This utility area is mainly provided so that the occupants do not dry clothes in the balcony. The need for a balcony gets reduced when the utility area is provided.

**The preferred flooring:** It included vitrified tiles (31%), marble (29%), wood (22%), granite (17%), and mosaic (1%). Thus, most buyers prefer vitrified tiles as flooring in their residential property, as this is an economical option; granite and marble are also very popular, but imply a higher budget.

**The preferred types of windows:** It included UPVC (aluminium sliding) windows (64%) and wooden (grill)

windows (36%). The UPVC windows are more preferred because they are large French windows which let in more of sunlight and breeze. Good brand of UPVC windows are also sound proof, not letting any honking sound of cars from the nearby streets. Good developers also provide grills and mosquito mesh along with these UPVC windows. Those opting for wooden grilled windows are more traditional in their preferences and concerned about security.

**Choice for smart homes:** Smart homes are all about remote mobile access, automatic lighting, video surveillance and energy efficiency. It comes with additional costs. These are on the rise in the Bangalore market. A smart home makes possible parents to watch their children playing in the playground of a residential complex through their bedroom TV. Electronic sensors in smart homes can detect motion and switch on lights automatically - which increase energy efficiency. The security of the property can be controlled through mobile phone application software, which can also keep track of who entered and exited the property and at what time. It was found that 76% of the buyers preferred smart homes, while 24% did not prefer smart homes. This shows how fast buyers are adapting to modern technology and western preferences.

**Preference for green buildings:** Green buildings have a certain standard to follow. In India most of the claimed green buildings are not 100% green. It is very difficult to meet the standards set for green buildings. One such difficulty is not to displace the soil while constructing the building along with no trees should be cut down. It is the future and very good on energy savings as it will be constructed in such a way that the building will use 70% natural resources. An example being that the building will be designed in such a way that it will let in maximum sunlight during the day and electricity will be minimally used. During the night renewable energy will be used to provide electricity. Green buildings can remain warm or cool naturally during different seasons because of their design. It was found that 84% of the buyers preferred green buildings, while 16% of the buyers did not prefer green buildings. Thus, buyers are fast adopting new technologies and western preferences.

There was significant association between preference for green buildings and preference for smart homes ( $\chi^2 = 10.861$ ,  $p = 0.002$ ). The vast majority of buyers who preferred smart homes preferred green buildings (90.8%), while only 62.3% of buyers who did not prefer smart homes preferred green buildings. Conversely, 82.1% of buyers who preferred green building preferred smart

homes, while only 43.8% of buyers who did not prefer green building preferred smart homes.

**The preferences for amenities:** This was grouped together according to factors as represented in Table 1.

Table 1: Rotated Component Matrix

	Factors		
	F1	F2	F3
Indoor gaming zone		0.503	
Gymnasium			
Banquet hall			0.836
Swimming pool	0.608		
Convenience store	0.843		
Spa/ sauna/ massage parlour	0.596		
Medicine shop/ telemedicine	0.713		
Sports ground		0.845	
Lawn tennis court		0.752	
Landscaped garden			0.534
%age of variance explained	24.60%	21.13%	17.24%
Extraction Method: Principal Component Analysis.			
Rotation Method: Varimax with Kaiser Normalisation.			
KMO measure of sampling adequacy = 0.842			
Bartlett's test of sphericity = 296.994, $p = 0.000$			

Three major groupings of amenities were identified. The first group included swimming pool, convenience store, spa/ sauna/ massage parlour, and medicine shop/ telemedicine, representing 'luxury facilities,' generally provided only by good developers in premium projects. The second group included indoor gaming zone (for sports such as chess, carrom, table tennis, badminton, and so on), sports ground (for cricket or football), and lawn tennis court, representing 'sports facilities.' The third group included banquet hall and landscaped garden, representing 'recreational areas,' usually used for socialising and holding parties. It was found that gymnasium was not necessarily needed in a residential housing project.

**Perception towards online sales channel for residential property:** 75% of the buyers perceived it to be unreliable, and only 25% of buyers perceived it to be reliable. It is interesting to note that Bangalore being an IT hub and majority of the population in the city being employed in the IT sector, still don't prefer to purchase properties online. The majority of buyers find online sale of properties unreliable, and would want to first have a look at the property physically and then wouldn't mind purchasing online.

## DISCUSSION

The following are some recommendations for residential property developers in Bangalore based on the findings of the study.

The greatest demand in Bangalore is for apartments, developers will be in advantage if focus on this segment. The apartments with two/three-bedroom, in the range of 1200-1800 sq.ft., with a budget of Rs. 25-75 lakhs is more in demand. Two-bedroom apartments could be offered in the size range of 1200-1400 sq.ft., while three-bedroom apartments could be offered in the sizes of 1400-1800 sq.ft.; however, the current market prices do not match with the budget expressed by the buyers, so that developers should focus more on economy housing in their upcoming projects. Another possibility would be for developers to provide smaller three-bedroom apartments with similar super built-up area of a typical two-bedroom apartment.

For penthouses, there were two preferred size ranges, 2200-2600 sq.ft. and 3400-3800 sq.ft., with a budget of Rs. 1.25-1.75 crores. For villas, there were two preferred size ranges, 2400-3800 sq.ft. and above 5200 sq.ft., with a budget of above Rs.1.75 crores. Thus, villas offer a lucrative opportunity for developers, as land prices are considerably lower in the southern parts of the city.

Most buyers consider connectivity, amenities, peaceful environment, and quality of construction as their main criteria when purchasing a residential property, not only budget because brand and trust of developers plays a crucial role in the industry and not price. People do not want to risk their hard-earned savings when they are purchasing a new home with it. Therefore, the developers in Bangalore should invest in brand-building and make it trustworthy to buyers to increase revenues and market share. To ensure better connectivity, developers need to plan the purchase of land appropriately, in order to locate their projects near to areas with good social infrastructure. Developers should also focus more on providing amenities in their ongoing residential projects, and match those with buyer segments targeted.

Some other trends have also been observed which developers may want to incorporate in their projects. There is a moderate trend in preference towards open-style kitchens. Also, there is a moderate trend against balconies, when they cut into the carpet area of the apartment. Thus, developers can introduce some apartments without balconies in their projects to target these buyers. There is also a trend towards preferring vitrified tiles as flooring in residential housing; this would be beneficial for both

buyers and developers, as it would reduce costs. There is also a trend in preference for UPVC/Aluminium sliding windows, as they let in more of sunlight and breeze and are sound-proof. Developers should also provide grills and mosquito mesh along with these UPVC windows.

There was found to be a trend in adopting innovative technologies such as smart homes and green buildings. Thus, developers should introduce these features, particularly for the premium segment. In particular, the green building concept is still at a nascent stage, so prime developers should invest in R&D to launch green buildings. In fact, there is a threat that new players may suddenly enter the industry with an improved green building concept and snatch a large amount of market share from existing developers.

Another interesting finding was that most buyers found online property sales to be unreliable, preferring to first have a look at the property physically. Thus, online marketing of residential properties can only be used to attract buyers, and must be supplemented with service support in order to ensure sales. Also, buyers can easily compare projects and can provide feedback to other buyers through online real estate platforms, making the market more transparent and competitive.

There are some limitations inherent in the study. The sample size for study is relatively low and the sample was selected by convenience sampling, hence the result of the study may not be representative of entire real estate market of Bangalore. The buyers' objectives could also vary, such as buying a property either for their own residence, or for a pure investment, or even for some other purposes such as leisure, second house, or residence for parents, children, or relatives. The buyers' objectives could influence their preferences. This gives scope for further more detailed study relating buyer objectives and preferences. Also, the market is highly dynamic and sensitive in nature. More recent developments such as the expansion of Bangalore city limits and the restructuring of Bangalore civic authorities may have a major impact on Bangalore housing market equations. The study must be regularly updated to remain contemporary.

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