

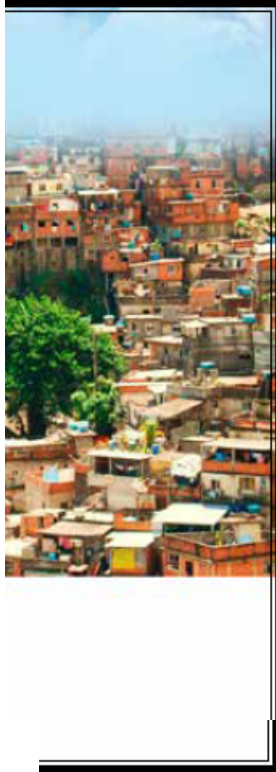


2016 TO WITNESS THE UPRISING OF TIER 2 CITIES

The budget was announced on the lines of promoting housing sector in the country and this definitely meant that regions not yet tapped for real estate development would have to be utilised for the purpose

Words: Chromohomes Bureau

Our forefathers correctly quoted that food, clothing and shelter will always remain the basic necessities of every human being. Shelter, in other words, real estate is not only regarded as a basic necessity but now days as, an investment opportunity or something that fulfils lavish needs of a person. Indian real estate sector has been growing leaps and bounds over the last few decades and is able to reap the benefits arising out of the modern concepts of construction. The pace at which barren lands are being transformed into metros is something to be noted. Although, in a product life cycle, there comes a stage where decline is sure to begin and hence, the once prominent realty regions in the country are guaranteed to saturate. This shifts our focus towards understanding and upbringing regions that are next in line, i.e. Tier 2 cities.



There has been mixed reactions post the announcement of the Union Budget 2016 – 17. Many a corners have expressed their discontent over the favour being done towards the affordable housing segment but who knows if this might be a benefit in disguise. Still there was a lot which indirectly supported the cause of the development being routed to tier 2 cities.

Kishor Pate, CMD, *Amit Enterprises Housing Ltd.* says, “This Budget could have done a lot more for the real estate sector. However, there were some positives. The fact that the annual housing rent reduction limit has been increased from Rs. 24,000 to Rs. 60,000 could lead to an almost immediate uplift for rental housing across the major cities. This can also potentially encourage the sentiments for home ownership in the long run. Also, first-time home buyers have been given the benefit of an additional deduction of Rs. 50,000 on home loan interest for loans not exceeding Rs. 35 lakh, where the value of the house is no more than Rs. 50 lakh.”

His thoughts were well supported by **Arvind Jain**, managing director of *Pride Group* who added, “Budget 2016-17 was far below expectations. Some leeway has been given to first-time home loan borrowers, but the relief will not boost demand in the metros. That said, service tax has been exempted for developers who are focused on constructing affordable housing with unit sizes not exceeding 30 sq. mtrs. in the larger cities and 60 sq. mtrs. in the smaller

cities. This is a significant plus, and in line with the incumbent Government’s intention to boost affordable housing.”

Taking a toll of the overall situation, **Ankit Aggarwal**, CMD, *Devika Group* avers, “Development on a piece of land cannot be redone or can be at most, revamped. The space once utilised does not allow further additions and here comes the importance of having land parcels in other regions. Depending upon certain parameters like infrastructure, civic amenities and others, Tiers are divided. Tier 1 cities in India are nearing its saturation as development has almost reached its peak. Therefore, the developers will now have to broaden their avenues and reach out to Tier 2 markets to gain back the momentum and this year will be the year of this possibility considering AMRUT and Smart Cities plans.”

SCOPE OF IMPROVEMENT

The benefit that something new holds over the previous is the fact that it is new and has ample of scope to improve than the previous. “Why Indian real estate has been a superior performer than others is because that it is blessed with today’s technology, ideation, concepts and skilled manpower. This allows better innovation and development for domestic developers that directly results in better structures and facilities. In a similar manner, Tier 2 cities in our



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country will grow much better than today's Tier 1 cities which are the key for smart futuristic development. We are already underway with mammoth infra upgradation plans in our country that are guaranteed to aid the development of Tier 2 regions”, shares **Avneesh Sood**, director, Eros Group. Simultaneously, this has got to help the sector revive up to a certain extent because tier 2 cities are going to be the next hot destinations of real estate in the country. This was well summarised in the thoughts of **Rohan Sharma**, associate director - research & real estate intelligence service, JLL India who says, “The Government's smart cities initiative will be a serious boost to the identified cities, many of which are technically Tier 2 cities, and seek to create a smarter city on the existing cities' framework. Improving the existing cities is definitely a step in the right direction. As the engine of eco-

nomie development chugs along, cities are the real growth enablers which act as magnets for employment and investments. Creating a sustainable living environment, which will make cities grow in a better and planned manner while bearing the strain of urbanization, thus becomes imperative.”

CONVENIENT PRICING

Pricing plays one of the most vital roles in the attraction of real estate prospects of a region. Tier 2 cities being emerging hot spots for investors and developers are offering deals at competitive prices that much lower than Tier 1 cities. “Prices at key Tier 1 realty regions begin from Rs. 4,000 per sq. ft. whereas country's top Tier 2 regions at present are offering properties starting from Rs. 2,500 - Rs. 3,500 per sq. ft. There are two angles of looking at it; one being the return on investment factor and other being lesser cost than Tier 1 cities which help in creating



a better demand from investors as well as end users. Customers interested to invest in Tier 2 cities must start investing in these regions as big plans are in pipeline for them, which in near future will fuel the property prices”, states **Rahul Chamola, MD, One Leaf Group.**

LONG TERM RETURNS

Every top real estate destination which is a metro today, was once a tier 2 or tier 3 city that post developments and improved connectivity has transformed into a region worth investing. This was very well summed up in the words of **Vivek Singhal, president - corporate strategy, M3M Group** who was quoted saying, “The Union budget talks about infrastructural development all across the nation. This has indeed given a great impetus to developing cities. We believe that tier II cities having sustainable economic drivers coupled with Government incentives would witness higher growth. Gurgaon is an example of a small suburban Tier II city transforming into a bustling millennium city in a matter of decades owing primarily to heightened economic activity among other factors.” Carrying a low price tag with promise of capital appreciation, Tier 2 cities are ready to offer better returns for their customers. Long term investment and second home buying will be the initial reasons of growth momentum for emerging Tier 2 cities.

WHAT'S NEXT

As Tier 1 cities reach saturation point, Tier 2 cities will become the next big fish for the developers and potential buyers. “The future case study of every Tier 2 city of today will be much like Tier 1 cities, where the

infrastructure came up followed by housing demand that provoked developers to enter and put a foot in those regions. With the government actively promoting urbanisation, this will pave way for developers to enter in Tier 2 cities and offer residencies and office spaces. The growth and return prospects are great in Tier 2 cities with huge scope of development”, says **Sudeep Agrawal, MD, Shri Group.**

It has now become crucial for Tier 2 regions to come up as there will be no point developing in regions where there is almost no demand left and prices are skyrocketing. Major Tier 2 regions in India such as Kochi, Nashik, Vizag, Vadodara, Trivandrum, Jaipur, Mangalore, Indore, Goa, Coimbatore and others are witnessing wonderful infrastructural and civic upgradation, and thus are perfect destinations for realty developers and buyers to look out for. “The graph and direction of growth has become pretty clear for Tier 2 regions of India to make their presence felt in the sector. It is now just a matter of time when the infra execution starts taking place”, adds **Rakesh Yadav, chairman, Antriksh India.** Concluding on the chapter, **Rajesh K Gouri, vice president, Homestead** states, “The cities that have been named in the list of first 20 urban areas to be developed as smart cities, consist mostly of tier two cities where the scope of development is on the higher side of the scale. The property rates in tier two cities are lower in comparison to the developed cities. The recent budget declaration of an additional deduction for first time home buyers, tax rebate in 30 sq mtr in metros & 60 sq mtr houses in suburbans would sure pump in a lot of investment which will result in further development of these cities.”

