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Research Article

Growth of real estate business in Mysore (Mysuru): A Time series analysis

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Abstract

Keywords

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Real estate business is one of the core businesses in fast developing cities, but it is too challenging business as well. Scarcity of land has resulted in accelerating prices of land with every passing day. As a result of this changed economic environment, Real Estate business is becoming a very attractive business proposition. Mysuru is one of the fast growing cities and 3rd largest city in Karnataka. The increased importance of Tier 2 cities like Mysuru in the overall economic scene of the country has made real estate business even more attractive. The increasing number of industrial units setting their bases in this City has resulted in increased demand for land – both industrial and housing. As a result growth of Real Estate business in Mysuru has reached new peak. In this paper the focus is to analyze the growth of real estate business between 2010 to 2015 using time series data. For this purpose, secondary data collected from sub-register office south zone in Mysuru city will be collected and data analyzed. The focus will also be on analyzing the changing nature of real estate in the city. Based on the findings of the study, suitable observations and recommendation will be made on whether the real estate business growth is in the right direction promoting the overall development of the city or whether any correction or regulation is needed.

Introduction

Mysuru, the city of palaces, is witnessing tremendous growth from the past few years. On the Bangalore-Mysuru corridor, software giant Infosys has already come up with its training center, while Wipro has finalized the site for its development facility. Mphasis, the first American corporation, Accenture, IBM, Cognizant Technologies and Honeywell are some of the others, who are following these Indian companies. It is not just the IT companies, but other prestigious companies like S Kumars, Kirloskars Gensets, VenlonPolysters, Reid and Taylor, Lassen and Tourbo and Bharath Earth Movers have also a firm foothold in the city from the past many years.

Mysuru is one of the most preferred residential locations in Karnataka. Interestingly, even the residents of Bangalore are finding it comfortable to work in Bangalore yet stay in Mysuru. Even, it is reasoned that a distance of 140 kilometers between Bangalore and Mysuru takes lesser time to cover than hourslong grueling in the Bangalore traffic. Since the time of

the construction of Outer Ring Road (ORR), Mysuru urban area has gained land value not only in the central areas but all around the city. Currently, however the real estate market has been hit badly due to the global recession with many cities such as Bangalore, Mysuru, Mangalore and Hubli–Dharwad having very scarce property buyers.

Definition of Real Estate and Its Types

Definition: Property comprised of land and the buildings on it as well as the natural resources of the land including uncultivated flora and fauna, farmed crops and livestock, water and minerals; immovable property of this nature; an interest vested in this (also) an item of real property;(more generally) buildings or housing in general. Also: the business of real estate :the profession of buying or renting land, buildings or housing. (reference: em.m.wikipedia.org).

Types of Real Estate

There are 3 major types of real estate:

1.Residential - This includes both new construction and resale homes. The most common category is single-family homes, but there are also condominiums, coops, townhouses, duplexes, triple-deckers and quadplexes, high-value homes and vacation homes.

2.Commercial Real Estate - This is shopping centers and strip malls, hotels and offices including medical and educational buildings. Apartment buildings are often considered commercial, even though they are used for residences, because they are owned by businesses to produce income. Here's more on Commercial Real Estate.

3.Industrial - These are manufacturing buildings and property, as well as warehouses. The buildings can be used for research, production, storage and distribution of goods. This is sometimes considered commercial real estate, even though the zoning, construction and sales are handled differently.

The Most Important Factors for Investing In Real Estate

I. Location of the Property

Why is it important? The age old punch line "Location, Location, Location" still rules and remains the most important factor for profitability in real estate investment. Proximity to amenities, peaceful conforming areas, neighborhood status, scenic views, etc. are major factors for residential property valuations; while proximity to markets, warehouses, transport hubs, freeways, tax-exempt areas, etc. play an important role for commercial property valuations.

What to look for? A mid-to-long term view, about how the locality is expected to evolve over the investment period. Today's peaceful open land at the back of a residential building may be developed into a noisy manufacturing facility in future, making the residential valuations less profitable.

II. Valuation of the Property

Why is it important? Real estate financing during purchase, listing price during sale, investment analysis, insurance premium and taxation - all depend on Real estate valuation.

What to look for? Commonly used Valuation Methodologies include:

- **Sales comparison approach:** Recent comparable sales of properties with similar characteristics –most common and suitable for both new & old properties
- **Cost Approach:** All cost summation minus depreciation – suitable for new construction
- **Income approach:** Based on expected cash inflows - suitable for rentals

III. Investment Purpose:

Why is it important? Given the low liquidity and high value investment in real estate, lacking clarity on purpose may lead to unexpected results including financial distress, especially if the investment is mortgaged.

What to look for? Identify which of the following broad categories suits your purpose and prepare yourself accordingly:

- **Buy & Self-use:** Savings on rentals, benefit of self-utilization and value appreciation.
- **Buy & Lease:** Regular Income & long term value appreciation. Requires building a temperament of being a landlord - for handling possible disputes & legal issues, managing tenants, repair work, etc.
- **Buy & Sell (Short Term):** Quick, small to mediocre profit - usually buying under construction properties and selling slightly high once ready
- **Buy & Sell (Long Term):** Large intrinsic value appreciation over long period of time; solution for long term aims like retirement planning, child's education, etc.

IV. Expected Cash Flows & Profit Opportunities:

Why is it important? The investment purpose & usage influences cash flows and hence profit opportunities.

What to look for? Develop draft projections for the following modes of profit & expenses:

- Expected cash flow from rental income - Inflation favours landlords for rental income
- Expected increase in intrinsic value due to long term price appreciation
- Benefits of depreciation (and available tax benefits)
- Cost benefit analysis of renovation before sale to get better price
- Cost benefit analysis of mortgaged loans v/s value appreciation

V. Be Careful with Leverage - Know the Pitfalls:

Why is it important? Loans are convenient but may come at a big cost - you commit your future income, to get utility today for a cost of interest spread across many years. Real estate financing needs higher amounts and hence has higher exposures. Understanding it properly allows you to benefit from it to the maximum, while ignoring the risks can lead to major pitfalls.

The above points shows what important factors we have to consider before investing in real estate. The following analysis helps to know why the Mysuru is best place for real estate investment, what are advantages from investing in Mysuru and growth rate.

1.1 About Indian Real Estate Business:

In India the mood is upbeat after the IT boom; it is witnessing the real estate boom. The rising income and the enterprising middle class, who want to own a home of their own, are responsible for this boom. With the availability of home loans and liberalization policy of the government the dream of owning a home is fast turning into a reality.

The Indian real estate market has seen a sharp upturn in the recent years. Even when the world economy was reeling from the aftershock of the huge recession that hit hard even some of the largest & leading economy, the Indian real estate market remained immune to the downturn that was seen in almost every other sector. The real estate sector witnessed and is still getting investment from a large number of investors of both India and abroad. It has been a golden harvest even in this turbulent financial market. For most investors, real estate has been a refuge from the burn most bear due to the downturn in almost every other sector.

The question arises what kept the real estate such a prosperous option even during a time when every other investment option seemed such a huge risk. Studies have revealed the transparency in the way the real estate sector works and the strong legal rules guiding almost every aspect governing investments in this sector has made it a great option for the investors. With India becoming one of the major targets for the Foreign Direct Investors, the need for new property is on the rise. People need more residential complexes, places to build shopping malls, offices, industries, and even agricultural lands. And they need these in proper locations which will benefit the business. Thus the demand for real estate properties at some of the key locations within the country skyrocketed within a few years.

India today is a fast growing economy and almost 50% of the population comprises of the young, dynamic generation. As they establish themselves in the society, their requirements also increase. From tourism department to hospitality, all are grabbing the opportunity. The high income younger generation today is their primary target. Thus, demand for real estate is also on the rise. Space is required for hotels, restaurants, leisure activity zones, etc.

Residential complexes, beautiful shopping malls, commercial buildings are springing up in almost all major areas of the cities. Even the NCR region is witnessing extraordinary growth and development. This growth has helped the real estate companies to serve national and international clients. Most of the companies deal in renting, construction, buying and selling real estate. The major players in the builders and promoters sector are Aggarwal estate, Cheloor Property Development Projects Limited, Classic Group etc. The DLF Group and the Sahara group are real estate companies that are building housing complexes and townships in different parts of the country.

1.2 Real Estate Business In Karnataka:

Karnataka is a state in South West India. It was formed on 1 November 1956, with the passage of the States Reorganization Act. Originally known as the State of Mysuru, it was renamed Karnataka in 1973. The capital and largest city is Bengaluru. Karnataka is bordered by the Arabian Sea and the Laccadive Sea to the west, Goa to the north west, Maharashtra to the north, Telangana to the North east, Andhra Pradesh to the east, Tamil Nadu to the south east, and Kerala to the south west. The state covers an area of 191,976 square kilometres, or 5.83 per cent of the total geographical area of India. It is the seventh largest Indian state by area. With 6,11,30,704 inhabitants at the 2011 census, Karnataka is the eighth largest state by population, comprising 30 districts.

The state has three principal geographical zones:

1. The coastal region of Karavali.
2. The hilly Malenadu region comprising the Western Ghats.
3. The Bayaluseeme region comprising the plains of the Deccan plateau.

The bulk of the state is in the Bayaluseeme region, the northern part of which is the second-largest arid region in India. The highest point in Karnataka is the Mullayanagiri hills in Chickmagalur district which has an altitude of 1,929 metres. Some of the important rivers in Karnataka are Kaveri, Tungabhadra, Krishna, Malaprabha and the Sharavathi..

Karnataka is one of the high economic growth states in India with the expected GSDP (Gross State Domestic Product) growth of 8.2% in the fiscal year 2010–2011. The total expected GSDP of Karnataka in 2010–2011 is about Rs.2719.56 billion. Per capita GSDP during 2008–2009 was US\$1034.9. Karnataka recorded the highest growth rates in terms of GDP and per capita GDP in the last decade compared to other states. In 2008–09, the tertiary sector contributed the most to the GSDP amounting to US\$31.6 billion (55 percent), followed by the secondary sector, contributing US\$17 billion (29 percent), and the primary sector's contribution amounting to US\$9.5 billion (16 percent). With an overall GDP growth of 56.2% and a per capita GDP growth of 43.9% in the last decade, Karnataka surpassed all other states in India, pushing Karnataka's per capita income in Indian Rupee terms to sixth place. Karnataka received US\$2,026.4 million worth of Foreign Direct Investment for fiscal year 2008–09 placing it at third spot among states in India. At the end of 2004, the unemployment rate of Karnataka was 4.57% compared to a national rate of 5.99%. For the fiscal year 2006–07 the inflation rate of Karnataka was 4.4% which was less than the national average.

The tremendous growth of Karnataka with numerous marketing and manufacturing industries has made it a perfect destination for commercial activities. The world class infrastructure and ideal business environment have provided

an edge to the real estate of Karnataka. Over the few decades, Bangalore has emerged as an IT hub of India, thus attracting large number of industries to set up commercial real estate in Karnataka. Sudden upsurge in commercial real estate has also given a boost to the number of immigrants looking for affordable residential property.

Splendid lifestyle and simplicity of the country side make Karnataka an exciting place to inhabit. Therefore, the demand for property in Karnataka is soaring new heights. The impact of the current economic boom is clearly visible on the Karnataka real estate segment and is showing positive future prospects in budding sector of Karnataka properties. For owing a commercial property or residential real estate in Karnataka some sort of help is required, which is available through local property dealers and brokers.

Research design and data analysis

The topic of study on “Growth of real estate business in Mysuru ” time series analysis is based on both primary data and secondary data.

Primary data:

1. Data collected from sub- registered office.

Secondary data:

1. Information collected from websites.
2. Articles
3. Magazines
4. News papers

Objective of the study

The main objectives of study are as follows:

1. To analyze the current position of real estate business in Mysuru.
2. To analyze real estate investment opportunities in Mysuru.
3. To analyze the how investors are benefited from investing in real estate business in Mysuru.

Scope of the study

The study was mainly concentrated on only Mysuru. In this analysis price trends of 2010 and the current ones are taken for purpose of study and remaining 2011-12, 2012-13 and 2013-14 price trend is extrapolated on the basis of 201-11 and current year price trend.

Data analysis and interpretation

Methods using in analysis

1. Due to the unavailability of three years price trend data (2011-12, 2012-13 and 2013-14) am extrapolating that data on basis of available two years data of 2010-11 and 2014-15.
2. The whole Mysuru real estate divided into 5 major divisions as follows:

1. **K R MOHALLA** (it is having around 63 sub-divisions)
2. **CHAMARAJA MOHALLA** (it is having around 168 sub-divisions))
3. **DEVARAJA MOHALLA** (it is having around 138 sub-divisions)
4. **KILLE MOHALLA** (it is having around 91 sub-divisions)
5. **V V MOHALLA** (it is having around 24 sub-divisions)

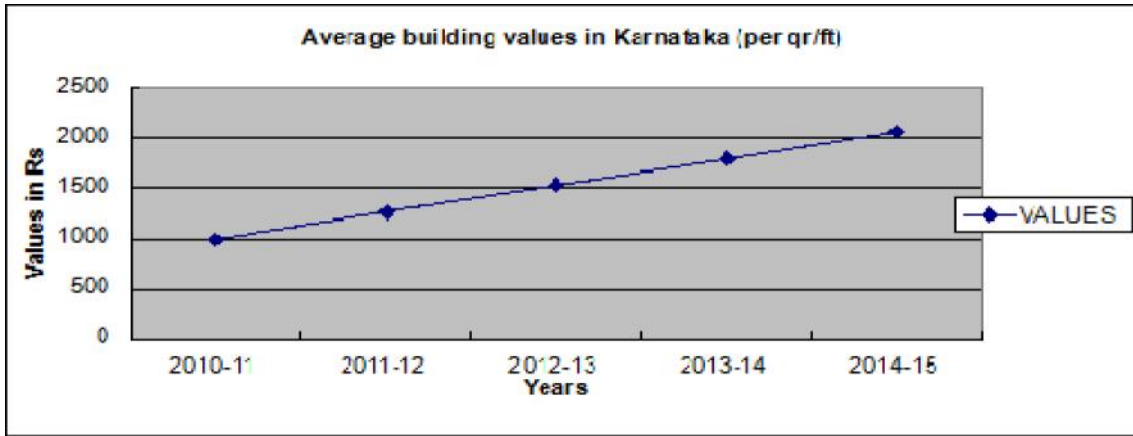
Other methods are:

1. Average value of real estate market value in Mysuru = average value of all divisions / number of divisions.
2. Average value of each division = average value of total areas / number of areas.
3. Average value of each area = Total value of residential, commercial, mosaic and marbels / 04

The following table shows average value of building (per sq/ft) followed by overall Karnataka. (following values include average value of ground floor and top floors building values)

Table no.01 average values of building in Karnataka (per sq/ft)

YEARS	VALUES	CHANGES IN %
2010-11	993	0
2011-12	1264	27.29
2012-13	1537	21.6
2013-14	1797	16.92
2014-15	2067	15.03



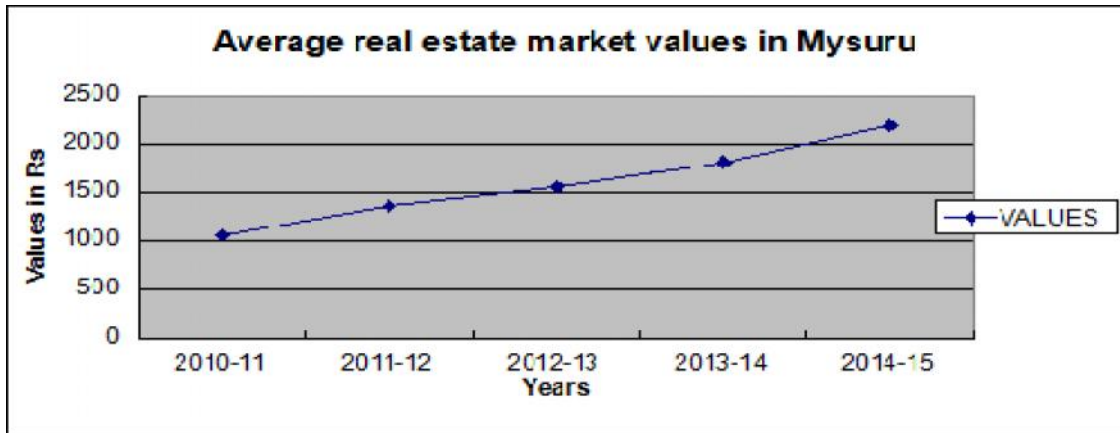
The above chart shows how real estate values of buildings increasing year by year. It shows continuous growth since 2010-2011 to till 2014-2015. The % of growth is decreasing but a value of buildings keeps increasing. From 2010-11 to 2011-12 around 27% value increased compare to 2010-11 as same as 21.6%, 16.92% and 15.03% value increased last three years simultaneously. In the year 2010-11 the value of building was in Karnataka Rs 993 and in 2014-15 its

increased to Rs 2067. Whole picture shows Karnataka having a good growth in real estate. Since last five year average 20.21% value of real estate growth happens in Karnataka.

The following table shows average real estate market values since 2010-11 to 2014-15. (the average values include residential, commercial, mosaic and marbels average.)

Table no.02 Average real estate market values in Mysore (per sq/ft)

YEARS	VALUES	Growth rate in %
2010-11	1052	0
2011-12	1362	29.47
2012-13	1554	14.1
2013-14	1810	16.47
2014-15	2185	20.72

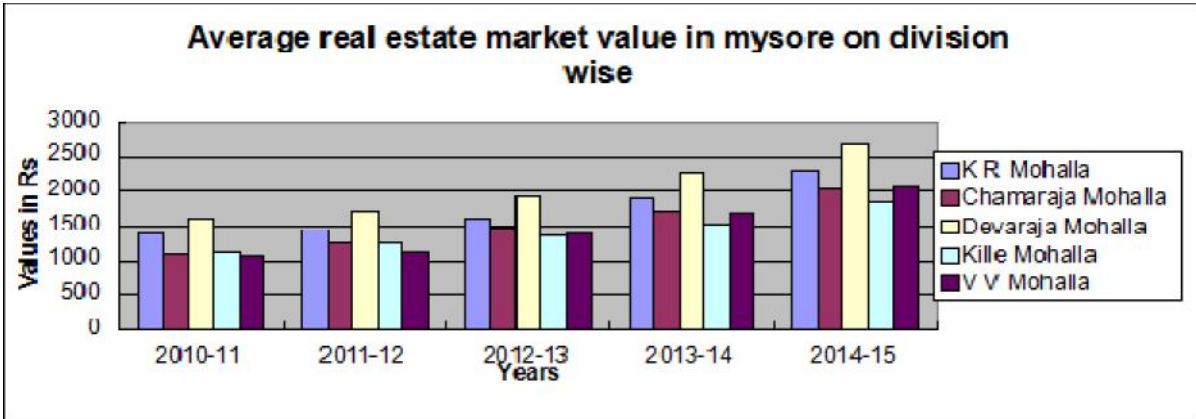


The above chart show how the Mysuru real estate values increasing year by year. In 2010-11 average value was 1052 rs per sq/ft and its increased around 1133 rs per sq/ft since last five years. The present average real estate market

value is Rs 2185 in Mysuru. Mysuru having a well growth its shows by % of growth, in the year 2011-12 Mysuru had 29.47% growth, in the year 2012-13, 2013-14 and 2014-15 Mysuru had a growth of 14.1, 16.47 and 20.72% simultaneously.

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Table no.03 Average real estate market values in Mysuru on division wise (per sq/ft)

	2010-11	2011-12	2012-13	2013-14	2014-15
K R Mohalla	1376	1450	1600	1900	2300
Chamaraja Mohalla	1091	1250	1480	1700	2041
Devaraja Mohalla	1595	1720	1930	2280	2664
Kille Mohalla	1118	1260	1370	1520	1849
V V Mohalla	1079	1130	1390	1680	2071



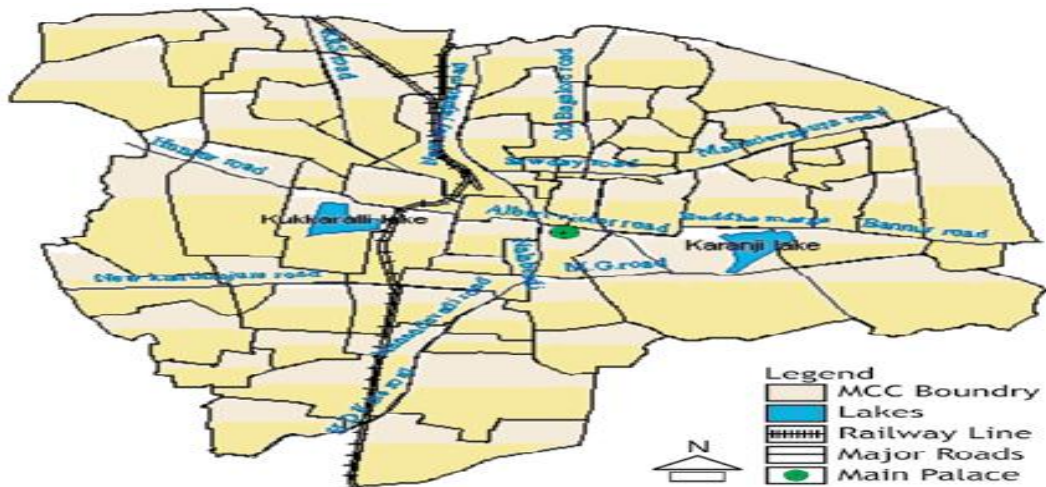
The above chart and table shows how real estate market values increasing in each division wise. As the above chart Devaraja mohalla having a tremendous growth and kille mohalla having least growth in Mysuru. Since last 5 year Devaraja mohalla division having a highest growth of Rs 1069 and kille mohalla division having least growth of Rs 731. Each division having a well growth and Devaraja mohalla division having a highest average real estate value of Rs 2664 and kille mohalla having a least real estate value of Rs 1849 in Mysuru city.

In the Mysuru, Devaraja Urs Road having a highest average real estate market value of Rs 11460 (per sq/ft) its comes under Devaraja mohalla division. Railway workers colony having a least average market value of Rs 880 (per sq/ft) its comes under kille mohalla division.

Why Invest in Real Estate in Mysuru?

Mysuru, the second largest city of Karnataka, is located at a distance of around 143 km's from Bangalore. There have been several names given to the city including City of Palaces, Garden City, City of Yoga, Ivory City as well as the Cultural Capital of Karnataka. The city boasts of traditional and royal heritage in spite of the many developments in the IT and various other sectors.

Mysuru has been involved in many industries and has gained huge profits. One of the events that contributes to Mysuru economic development is tourism. The main reason for the increasing growth of the city is due to the emergence of many software, IT and BPO companies in the city.



Due to the increasing industrial growth in the industrial sector there also has been a great development in the construction of residential buildings. There are various developers and builders who are investing in big projects which include residential townships, gated communities as well as apartments. Not only in Mysuru there are many builders and developers from various cities investing in Mysuru. There are many Indian as well as foreign investors who are taking up initiatives in the implementation of Residential Projects.

High Benefits for Those Investing In Mysuru

1. Four-lining the State highway and doubling the railway links between Mysuru and Bangalore has indeed worked wonders for the Sandalwood city. With drastic reduce in the travel time between the two cities, real estate and other industries are flourishing to a large extent in Mysuru.
2. Lots of residential projects and industries are planted along the Bangalore-Mysuru highway and still more are in pipeline.
3. Government has earmarked many industrial estates starting from Bidadi to Mysuru for development along State highway and railway track, running parallel to each other. Bidadi, located on the Bangalore-Mysuru highway is home for many large automobile clusters.
4. Occupying a giant size of 432 acres, Toyota Kirloskar Motor Corporation has its manufacturing base here with its ancillary manufacturers and auto suppliers owning more than 250 acres in Bidadi. All the phenomenal industrial growth here is mainly credited to the automotive sectors set up here. This development is expected to continue as the existing auto majors are more likely to attract other auto manufacturers.
5. Apart from the auto manufacturing industries, Metal and engineering, electronics, cola factory, textile, telecommunications, furniture and interiors, packaging, fabrication and packaging are the other industries that are located here.
6. To construct new manufacturing units in Bidadi, Bosch has bought 97 acres of land and is planning to relocate in two phases.
7. The unique factor about the industrial growth in Mysuru is the fact that developers will be able to easily identify over 6,000 acres of land in a stretch, which might not be possible in other cities as the industrial areas there are more likely to be scattered in various pockets. An addition of 2,500 acres of

land is soon expected in Belagola, Manuganahalli, Koorgalli and H D Kote Road.

Overthrowing its earlier name as a pensioner's paradise, Mysuru is now blossoming in every field. All credits to the increased connectivity developments with Bangalore! People now find Mysuru very attractive not only to do business but also to move in. With excellent employment opportunities and boosting the local economy, Mysuru investors now one of the best options to buy a property, be it residential or commercial for all the .

Conclusion

In this article I would like to show the current real estate business position in Mysuru. Here am not trying to motivating or approaching anyone to investing in real estate business, because each and every business having their own risk and uncertainty. Before investing in any business, the investor should having proper knowledge about business, pre estimation and planning is necessary. Here I would like to share my knowledge through this article. I hope this article will may be helpful to investors who are interested investing in real estate business in Mysuru.

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