

Economic Impacts of Real Estate in Nepal

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Abstract

Real estate is one of the important economic sectors of Nepal around 90 national properties covered by real estate. In this context, the study analyzes the how real estate play's role in national economy and economic activities in Nepal. Main objective of this study is to analyze the economic impacts on real estate business in Nepal. The study follows the qualitative research design and used both primary and secondary source of the data. Primary data were collected from in depth interview with respondents and secondary data were collected through library research. Books, articles, journals, government reports and thesis were the main source of secondary data. Conclusion of this is based on the analysis of both primary and secondary data. Traditional concept about property, global influence, high flow of remittance and government policy play importance role in real estate business. Each of the economic activities of Nepal is influenced by real estate business.

Keywords: Real estate, economic activities, Nepal, economic growth

Background

Real estate is the business related to land, property and other fixed assess. The concept of real estate developed during sixteen century and seventeen centuries. At that time land was captured and registered by powerful person and used for personal benefit. In the context of eastern world, land has been used as form of property since Vedic age. In modern time real estate refers to building and infrastructure that Allan (2017) notes, "Real estate refers to the immovable property such as land, land and house or any type of building or infrastructure used for either residential or business or any other purposes" (p.45). In the context of Nepal real estate is one of the main sectors of income and investment. There is proverb related to real estate, "There is three ways to become rich, one is long distance travel, the next is land and the third one is dowry or gift bridegroom has got from bride side". Utilization of land is one of the main ways to become rich. It means real estate is only one way that determined the richness of a person. In recent time, real estate is forcefully introduced as sector of investment. From remote area to fast growing urban people are involved in real estate. Mainly the money acquired from corruption and foreign job are highly used in real estate business. The real estate industry in Nepal had been rapidly grown after earthquake, blocked of India and lockdown, however

after 2022 real estate sector create problems in the economic and monetary cycle of Nepal. In 2022 Nepal Rastra bank launched a report about the solution of the problem that is related to real estate investment and refinancing in Nepal. The report highlighted that real estate sector bring multiple problems in Nepal once at time like increased the price of land that creates problems in land acquisition for mega project, production sectors and finance sector faces crisis of cash flow, people who have low income have lost the purchasing capacity of land and house. In future the situation effect on national shelter policy of Nepal. The nation shelter policy 2012 notes that:

The National Shelter Policy,2012 has projected that around 1,364,000 residential housing units are required in urban areas with around 900,000 new constructions by 2023 to fulfill the demand for homes in the country. According to the Nepal Land and Housing Developers' Association (NLHDA), out of the total demand of homes, 2.26 percent is being fulfilled by housing developers while units constructed by the private land owners cover a whopping 97.74 percent at present. (Prashain, 2017, p.4)

In the context of Nepal government is failure to manage and control the real estate sector because national shelter policy has not been activated in Nepal till data. Other sectors of investment is narrowed and government and financial institution prioritized the real estate industries for financing that creates serious economic problems in Nepal since last two years.

Literature Review

Writers and researchers have been studied about the situation of real estate business and its impact. In this regards, Singh (2009) highlights the nature of real estate as, "Real Estate Marketing (managing the sale side of the property business and relocation services to different countries" (p.6. real estate marketing is one of the up growing property businesses of 21st century. Wikipedia encyclopedia identifies the business as matter of pride and security of human being. It has great significance in human life. Real estate is a legal term that encompasses land along with improvements to the land, such as buildings, fences, walls and other site improvements that are fixed in location immovable (http://en.wikipedia.org/wiki/Real_estate). Real estate is also known as real property that can use for long time and continuous in life. It is not only use for long time it can have high exchange value and durability for sale. It is one of the main tools for economic growth. In this regards Sarker et.al, (2011) highlight:

Housing and real estate sector play an important role in overall economic growth, social uplift, and employment in the context of the rapidly expanding economies. Personal residences account for 75–90 percent of household wealth in emerging-market countries, which amounts to three to six times their annual income. Housing represents 15–40 percent of the monthly expenditure of households worldwide. Similarly, investment in housing accounts for 15–35 percent of aggregate investment, whereas housing construction and housing-related sectors constitute approximately 9 percent of the labor force worldwide. (p.56)

Sarker et.al, introduced the real estate sector as main source of property because it is related to shelter. Shelter is one of the basic needs of human being so that both government and private sector equality involved in the business. Sarker, et.al (2011) highlights the situation of Bangladesh and notes, "The formal financial sector caters to only 1 to 2 percent of all housing transactions in the country, whereas

the informal lending also caters up to 10% of such transactions"(p.7). In the context of Bangladesh real estate is one of the main prestigious businesses because government has sound policy on real estate business but in Nepal most of the time real estate is run in informal way so that it is known as the most corrupted sectors of the nation. Artificial demand and money laundering is the main issue of real estate in Nepal that play important role to disturb the economic discipline of the nation. Urbanization and population growth is generally the universal cause of increasing real estate business but in Nepal the population grow this slow and urbanization also no so high. In this regards, Ministry of Finance (2022) Notes, "the growth of the real estate industry in Nepal is the increasing demand for housing and office space. There has been an ever-increasing need for affordable housing units and modern office spaces" (p.45). There is no proper reasons of increasing the price of land in Nepal because certain natural disaster and political upheaval also play roles on it. Prasain, K. (2017) highlights:

The slowdown started in February when Nepal Rastra Bank (NRB) in its mid-term review of the current FY's Monetary Policy capped bank financing on real estate and home loans to 25 percent of their total lending portfolio blaming it as one of the factors for the credit crunch which has gripped the Nepali banking system since late 2016. Citing lending for real estate and homes as 'unproductive', the banking regulator reduced the maximum limit of personal overdraft loans to Rs 7.5 million from the earlier Rs 10 million. (p.5)

There is no single cause of increasing real estate business in Nepal. After earth quake and blocked of India people have not seen other alternative to invest and invest money in real estate sector that enhance the real estate business in Nepal. Financial institutions also feel real estate sectors is comparatively secure than the other sector of investment. Report of Nepal Rastra bank noted that in real estate business there involved customer, renter and developer. The report indicates:

The main participants in real estate markets are, Owner/User - These people are both owners and tenants. They purchase houses as an investment and also to live in. Owner - These people are pure investors. They do not consume the real estate that they purchase. Typically, they rent out the property to someone else. Renter - These people are pure consumers. Developers - These people prepare raw land for building which results in new product for the market. (p.3)

Price and physical features of the lands play important role to increase the price of real estate. In addition to the price and physical features government policy and social value of the society also play role to increase the price of land. Laquindanum, (2010) highlights, "Asset prices are useful in that they provide policymakers forward-looking information. However, once asset price bubbles develop and eventually burst, they can lead to widespread financial and economic disruptions" (p.5). fixed asset price like the price of real estate play role on rating loss of capital of the nation that Reynolds, (2009) highlights:

These factors are typically incorporated into measures of probability of default (PD), or rating, and loss given default (LGD). The tendency for losses to bunch together (and create problems) is quantified through correlation. Capturing correlation, along with the other key factors of exposure, PD and LGD leads to a measure such as credit value-at-risk defined at a particular confidence level (p.4).

Credit risk of a nation is determined by financing system and it recycle. Real estate sector faces problems on financing and recycle of the loan that has used in real estate. By giving the example of

united states Chinloy (1996) indicates, " "four sources of real estate financing (in the order of contribution) during the housing boom in the United States, such as savings and loan associations followed by commercial banks, insurance companies, and mutual savings banks"(p.3). in the same way, Shehzad, (2018) notes "financial institutions as the dominant force in the home mortgage markets. In spite of an increasing focus on urban housing and development, informal systems are still the dominant producers in many developing countries" (p2). In developing nation like Nepal real estate sector is developing as problematic and effect on industrial and production sectors. Schmidt, & Budinich, (2006) highlights "The informal sources of informal finance have lesser legal formalities and have developed good relationships with customers. They are popular even if they charge exorbitant interest rates (p.98). In the context of Indian real estate market of Neova (2010) notes:

The rising middle class and its consumer demand is driving the real estate boom in India. For example, for every rupee invested in housing, Rs 0.78 gets added to the national GDP and the construction sector provides direct employment to 16 percent of India's workforce; and the housing sector alone is the second largest employment generator after agriculture, accounting for 58 percent of the workforce in the construction sector (p.7)

Real estate business is related to the ethos of middle class because middle class people are not only customer of land and fixed asset but also developer of the real estate, Piyasiri, (2006) as, "It is a government-owned entity, is a significant contributor to the housing finance market. These institutions are the main players in housing finance among the specialized banks" (p.43). Financing in real estate sector is important for increasing the price of land in developing nation that Laquindanum, (2010) highlights, "To be proactive would be to lean against the wind, that is, to tighten monetary policy during the boom phase. The reactive policy would be to mitigate the consequences of an expected or an actual asset price bust" (p.78). Financial crisis is one of the impacts of down fall of economic system. Koh et al, (2004) explain:

In the aftermath of the Asian financial crisis, many researchers have examined the role played by the real estate sector in the crisis, and have argued for reforms in the regulation of the real estate markets and the treatment of real estate loans by financial institutions in order to prevent the recurrence of the kind of asset bubbles that contributed to the financial crisis. (p.44).

The recent financial crisis is not only related to domestic phenomena of the nation but also influenced by global issue such as war, COVID-19 pandemic, environment crisis. The crisis of Nepalese economic system has deep relationship with real estate business. Financial crisis, lack of cash flow and liquidity crisis is the current impact of real estate business.

Research Methodology

The study is based on the qualitative research design and analyzed the impact of real estate business in day-to-day life. Both primary and secondary source of data were used in this study. Primary source of data was collected from in depth interview. I have asked subjective questions to the 3 individuals who are directly involved in the real estate business (one is from bankers; one is from developer and one is from customers). Books, journals and government reports were used as main source of data. Narrative interpretive techniques were used to analyze the impacts of real estate business in Nepal.

Economic Impacts of Real Estate

Both negative and positive impacts have seen due to real estate business. To analyze the issue there analyzes the perception and opinions of the participants who expresses the impacts of real estate business in Nepal.

Socio Economic Status of the Respondents

There has given nick name to the participants like p1 for participant one, p2 for participant two, p3 for participant three. P1 is 50-year female who has been working in bank for twenty years. She directly involved providing loan to the developer of real estate business. P2 is 45 years businessman who directly involve in real estate business. Her has around half dozen company related to real estate business. P3 is 60years old male who purchased lands form developer and individual. While analyzing the overall impacts of real estate business in Nepal p1 notes:

Real estate business is one of the emerging businesses of Nepal. The business had flourished in Nepal with developing of urbanization. After earthquake in 2015 real estate business increased and it was developed as prestigious one and comparatively the area is fruitful for bank. Bank and financial institution earn enough from the investment of real estate. Around 90% bank and financial institutions invest in real estate. During the period of COVID-19 also real estate business reach into the submit and profit was high in real estate but now real estate business creates problems in financial system in Nepal. (Personal Interview, 2080)

P1 highlights the negatives impacts of real estate business in financial sectors because government has also put the real estate market in Nepal as successful business. During the time of COVID-19 also Nepal Rastra Bank continuous financing and encourage people to invest in real estate. According to the report of Nepal Rastra bank (2021) notes:

Land and home costs can confirm it, particularly not in excess of our spending plan valley. According to the records of the Department of Land Management, by and large 76,532 houses and plots of land were purchased and sold the nation over the most recent one month (mid-December to mid-January). During this residency, the public authority gathered income worth of Rs. 6.65 billion from land exchanges. As indicated by the division, the land business has been expanding of late. Out and out 56,838 plots of land were purchased and sold in the three-month time frame till mid-October, while in excess of 50,000 plots of land were exchanged from mid-October to mid-November. Upwards of 61,451 houses and plots of land were purchased and sold in the middle of mid-November to mid-December. (p.34)

Above reports indicate the current situation of real estate business in Nepal which had unnecessary grown in Nepal, however, government restricted demarcation and division of land in urban area. After short time Nepali real estate business lost it credibility and bring inflected whole economic system of the nation. In this regard, p2notes:

Bank and finance companies easily provide loan in real estate sector because the area is less risk area in Nepal because there is no proper environment in Nepal for industrial development. Real estate developers easily repay the loan and commission to the banks. In some cases, bankers also take share of Real Estate Company and provide loan without proper security deposit. In recent time market of real estate is not leads in proper way. Large amount of

investment freezes in real estate sector and that create problems in repayment. That brings economic and financial crisis in Nepal and industrial and production sectors have faced the problems of investment. (Personal Interview, 2080)

Real estate business faces crisis after short time upliftment because the sectors could not maintain economic discipline because government agency and banking sectors only think short time benefit rather than the long-term effect of the sector. P3 notes about the impacts of real estate business in Nepalese society as:

From the real estate business resources concentrate in certain people and they increase the price of land without any logic and earn money from mass people. Mass exploitation, curtailing and criminality mixed in real estate business. Political parties' leaders, bankers, businessmen and local landlord jointly involved in the business and fix the price of land. Government cannot control the economic anarchy and that increase criminality in society, economic system also collapses in the society. Industrial and production sector cannot get support from government. After increasing the price of land government could not pull the land and run infrastructure project in Nepal. Real estate business creates problems in all the sectors of Nepal and it is being the main cause of the backwardness of the nation. (Personal Interview, 2080)

There no proper policy for handling real estate business because government take it as main source of deposit. Political parties make the real estate as main source of income and leaders gain money from real estate business. It is only the way to legalize the illegal earning and black money because government cannot control land administration in Nepal.

Due to high price of land government could not acquire land from people because there needs huge amount of money for land acquisition. Many projects face the problems of land acquisition in Nepal. Like that high price of land and unnatural benefit of the land create problems to regulatory tapestry because it disturbs the obtaining requisite permits, and adhering to zoning regulations. Land price not only create problems in shelter and housing but also effect on infrastructure development like construction of highway, hydropower, transmission line and industrial area.

Conclusion

There are both negative and positive impacts of real estate business in Nepalese economic and financial system. Growth of real estate business brings new insight about land and land related business. Nepal's real estate business is an enticing landscape brimming with opportunities for investors and developers keen on capitalizing on the surging tides of urbanization, tourism, and infrastructure expansion. The business brings awareness about the value of land and fixed property government also understands the importance of land for development. Before some decade government and people had no conscious about land. But now land becomes the main property and it determined the social prestige of people in society. With positive impacts negative impacts also falls in economic and financial sectors because it brings economic crisis in nation through reducing deposit of the financial institution. Large amount of money hold in real estate sector that creates problems in loan repayment system and maintaining loan system of bank and financial institution. Earning of remittance highly invested in real estate that create capital deficit in production and industrial area. More than that most of the cooperative and finance

invest in real estate that cannot refund in time due to down fall of the business and problem occurs in cooperative sectors.

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