A STUDY OF INVESTMENT PORTFOLIO IN REAL ESTATE BUSINESS IN HARYANA

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Abstract

Real estate is one of the largest employer after agriculture in India. It is also a globally recognized sector which is witnessing a high growth in recent times because of increasing demands of offices and residential places. With Gurgaon, Sonepat, Faridabad and Panchkula humming with commercial and residential building activities, the real estate emerged as the most favourite sector for investors in Haryana in 2010, an Assocham study said. Of the total investment of Rs 4.3 lakh crore under implementation, real estate accounted for Rs 2.4 lakh crore, it said. "Real estate industry got the lion's share of 56 per cent of the total live investments," the industry body said in its strategy paper on investment in the state.

India is a large country with an even larger population, and multi-national companies are taking a strategic approach to capitalize on this growing market and rich pool of talent. In terms of establishing office locations, most companies consider three types of cities: Tier I cities are the hubs of business. The financial capital of Mumbai, the political capital of Delhi, and the technology capital of Bangalore are the first destination for most corporations and real estate demand and rental pricing reflect this.

Introduction

India has experienced near-double-digit growth in the last several years and stories of the Indian economic juggernaut fill newspapers and bookstores. The commercial real estate market is no exception. The IT boom has created a huge demand for quality office space that was

nonexistent a few short years ago. Several prominent Indian developers have emerged, and more and more international investors and developers are plunging into the country. As with any local or regional market, there are many idiosyncrasies that color the business environment, and India is no exception. Below is an introduction into the current conditions within the Indian real estate market and what the future may hold as India quickly becomes a global superpower. India is a large country with an even larger population, and multi-national companies are taking a strategic approach to capitalize on this growing market and rich pool of talent. In terms of establishing office locations, most companies consider three types of cities: Tier I cities are the hubs of business. The financial capital of Mumbai, the political capital of Delhi, and the technology capital of Bangalore are the first destination for most corporations and real estate demand and rental pricing reflect this. Consider this: office space in a prime location such as Nariman Point in Mumbai costs upwards of 350 Rupees per square foot per month (or approximately $105 per square foot per year), making it one of the most expensive real estate markets in the world. While bursting demand and constrictions on new supply have propelled rental rates, these cities face significant infrastructure issues, particularly road congestion, and the capital markets environment is somewhat stymied due to the prominence of strata title and opaque ownership history, specifically on older, more established assets in downtown locations. Tier II cities such as Chennai, Hyderabad and Pune are the burgeoning centers of IT - 2 - commerce. With large populations, developing infrastructure, airport connectivity and top-notch educational institutions, many companies look to establish large operational hubs here. While demand for space in these cities remains strong, stronger interest by developers has caused inflated land prices and many markets are predicting an oversupply of new office supply in the next ten to eighteen months. As a result, rental rates are leveling in many cities after several years of growth. Too many to list, Tier III cities are those that have yet to see the formation of a formal real estate market, but to varying degrees have the right ingredients to attract multi-national tenants. Corporate occupiers are increasingly looking to gain first-movers advantage into cities such as Kolkata, Chandigarh, Kochi, Coimbatore and Vishakapatnam due to the potential of untapped labor markets and heavily discounted real estate costs that accompany less established locations. In light of rising costs, particularly in real estate and human capital, and a weaker dollar, these cities in coming years are sure to provide plenty of competition to Tier II cities. Despite early signs of the market reaching a peak, most of India‘s cities continue to be overwhelmingly a landlord‘s market. All cities are still seeing multiple leases and active requirements from 100,000 to over 1 million square feet,

and tenants are sometimes forced to wait months for the completion of core shell construction to start the hiring process for their new operations. Tenants are faced with the resulting conditions: no tenant improvement allowance, free rent periods that are only given during fit-out construction and maintenance charges up to twenty percent above cost. Things to Look Out For A relatively young democracy – celebrating its 60th year of independence this year – India is still maturing economically and politically, and a thorough due diligence is required when considering India from an occupier or investor perspective. Local developers are still responsible for the majority of new supply in most markets and their reliability on timelines and construction quality varies. State governments play a key role in the viability of any particular market and a shift in power can cause major changes in the growth patterns of a city. Furthermore, the economic vehicles created for IT companies are a source of much debate. STPI, or Software Technology Parks of India, is - 3 - a longstanding government agency, which provides tax benefits until 2009, and the extension of these benefits is unclear. The result of this is that the majority of new requirements are looking at Special Economic Zones, or SEZs, which allow for up to 15 years of tax holidays for both occupiers and developers. However, frequent changes in SEZ policy require companies to create a customized strategic plan with their tax consultant before commitment and occupancy. Likewise, there is no clearly defined exit strategy for SEZs and developers are currently required to adopt a long-term hold strategy on these assets.

The Indian Real Estate Industry in the country is one of great importance and according to the report of the Technical Group on Estimation of Housing Shortage, as estimated there was a shortage of 26.53 million houses during the Eleventh Five Year Plan (2007- 12) which provides a big investment opportunity. In 2010 India has lead the pack of top real estate investment markets in Asia according to a study by Price water house Cooper (PwC) and Urban Land Institute, a global non-profit education. The report provides emphasis on Asia-Pacific real estate investment and development trends emphasizes India, in particular Mumbai and Delhi, are good real estate investment destinations. Even the Residential properties are viewed as more promising than other sectors. Today Mumbai, Delhi, Chennai and Bangalore are on top the pack in the 'buy' prospects. Indian Real Estate Companies are creating various residential and commercial projects to fulfill the demand for residential and office properties in Tier-II and Tier-III cities. For example, Ansal Properties have several residential projects in cities such as Jodhpur, Ajmer, Jaipur, Panipat, Kundli and Agra. Omaxe has planned around 40

residential and integrated township projects in Tier-II and Tier-III cities, majority of them in Uttar Pradesh, Punjab, Madhya Pradesh, Rajasthan and Haryana. According to latest analysis released by the Department of Industrial Policy and Promotion (DIPP), housing and real estate sector including cineplex, multiplex, integrated townships and commercial complexes, etc, attracted a cumulative foreign direct investment (FDI) worth US$ 8.4 - 5 - billion from April 2000 to April 2010 and even the sector witnessed FDI amounting US$ 2.8 billion in the fiscal year 2009-10.

Latest developments In 2010 the Private equity fund IL&FS Investment Managers (IIML) have planned to invest US$ 300 million in real estate and urban infrastructure projects. Recently Godrej Group's real estate company, Godrej Properties and Frontier Home Developers has planned to develop a residential project in Gurgaon. It would be a first residential project in the national capital region (NCR) for Godrej Properties. Shristi Infrastructure Development Corporation would invest US$ 444.7 million over the next three years in seven small cities in West Bengal, Tripura and Rajasthan. Ansal Properties & Infrastructure Ltd had planned to invest about US$ 330.8 million over the next three years. 70% of foreign investors in India are making profits as the Real estate investments in India yield huge dividends. The relaxed FDI rules implemented by Government of India has invited more foreign investors and Indian Real Estate Industry seems to be the most lucrative ground at present. Such friendly revised investor policies allowed foreigners to own property, and dropped the minimum size for housing estates built with foreign capital to 25 acres (10 hectares) from 100 acres (40 hectares). Indian real estate sector is on boom and this is the right time to invest in property in India to reap the highest rewards.

Litrature Review

Federal support for private sector development of affordable housing began in 1977 with the initiation of the UDAG program, which was intended to promote private development and based assessment of development on ―practical tests of market feasibility and explicit ratios of public/private investment leverage (Sagalyn, 2007, pp. 9-10)‖ rather than city planning or social justice concerns. The US emergence of public-private partnerships began on the East Coast during the 1970s and 1980s, as a response to civic challenges including financial crises and economic problems (Austin & McCaffrey, 2002). The first business leadership coalitions, for example, emerged in New York, Boston, Detroit, and Cincinnati following significant stress in

the cities, including race riots, bankruptcy, and financial distress (Austin & McCaffrey, 2002). One of the earliest housing authorities to begin the use of publicprivate partnerships is the New York housing authority, which began to explore the potential for supplementation of public housing with private initiatives as early as 1981 (Wylde, 1999). The New York City Housing Partnership, seeded with a $30 million grant from the federal government, resulted in over $1 billion in increased affordable housing (Wylde, 1999). The city provided funds, and private developers essentially planned and developed projects on their own, including planning revenue, development, and construction (Wylde, 1999).This program was seen as a way to reduce the higher cost centralized administration of public housing in New York City with a cost-saving approach that leveraged the capabilities of private industry and allowed for a higher level of control over the city‘s affordable housing stock (Wylde, 1999). By a decade following the inception of the program, the majority of New York‘s affordable housing was structured as public-private partnerships, and - 34 - according to Wylde (1999), there were many more units available at a lower real rate than during the 1970s. Thus, up to that point the public-private partnership was considered to be a highly effective initiative in New York. Not all public-private partnership efforts at affordable housing have been directed toward the city; instead some efforts have attempted to increase affordable housing in the suburbs (Stockman, 1992). However, these attempts have commonly been foiled by exclusionary zoning, in which local zoning laws are structured in such a way as to prevent building affordable housing within the town (Stockman, 1992). One such attempt was the Massachusetts Low and Moderate Income Housing Act, which was intended to address this exclusionary zoning (Stockman, 1992). Public-private partnerships were key in the success of this act, which allowed communities to provide units toward a lowincome housing quota by negotiating with private developers to specify some number of their units as dedicated low-income housing (Stockman, 1992). These units, which were offered at subsidized rates for low-income renters or home buyers, served the purpose of increasing penetration of affordable housing into the suburbs without leading to significant resistance from towns (Stockman, 1992). Other programs have been designed as a means of eliminating failing affordable housing stock. The HUDA program was intended to support the development of mixed-income distressed or nonfunctional. This program, which focused on private development of affordable housing, was implemented in 1972 (Popkin et al, 2004). The assessment of is difficult due to the varied nature of the environments it has operated in and its actions; however, Popkin et al (2004) observed that the residents of affordable housing units have not always benefited, sometimes being displaced from

established neighborhoods, facing unavailability of replacement housing on demolition of existing housing stock, or not being able to participate in the planning process (Popkin et al, 2004). The real estate developer is not the only private partner that may participate in publicprivate partnerships, although it may be the most common. For example, a growing - 35 - number of university-community partnerships have been developed in recent years in order to provide affordable housing in the areas of the university (Wiewel, Gaffikin, & Morrisey, 2000). These partnerships use university resources to provide development for the surrounding area, both for their own workers and for community residents (Wiewel, Gaffikin, & Morrisey, 2000) Research has indicated that the benefits of the public-private development of affordable housing are often dramatically overstated, and that many of the residents of these housing units (including mixed-income units, including designated units in market-rate developments) (Fraser & Kick, 2007). Evidence suggests that this underperformance results from lack of capacity and goal consonance between private developers, nonprofits, and government agencies involved in the development process; without these elements, residents of affordable housing units do not benefit, although other stakeholders often do (Fraser & Kick, 2007). The use of private developers for building affordable housing is not always successful in terms of ensuring efficiency and management effectiveness, either. One case from India found that some developers simply stopped construction after receiving funds, constructed poor-quality units, or did not end up offering the units funded by public funds to the poor as intended (Mukhija, 2004). he issue of regulation and red tape can also slow production of affordable housing in some areas, reducing the availability in the long term to low-income residents (Sengupta, 2006).Although the evidence for these studies comes from India (where the public-private partnership model is also in active use for affordable housing development), some similar problems have been observed in Haryana as well. Recent evidence suggests that the public-private partnership in management of public (or social) housing may actually be detrimental to the end goal of providing public housing (Pawson, 2006). Problems such as creeping rental rates, deteriorating housing stock that is not maintained, and other such problems have reduced the utility of the public-private partnership, and in many cases the assumed flexibility and efficiency of the private market has been shown to non-existent (Pawson, 2006). Furthermore, there are problems in some periods with finding developers to provide the private partnership component, - 36 - particularly in conditions that lead them to believe they will not be able to recoup costs (Pawson, 2006). Thus, the development and management advantages of the private developer cannot be assumed. One issue that must be

considered is the risk involved in the partnership for both the public and private entity, each of which could be challenged by lack of adherence to the contractual arrangement (Hard castle & Boothroyd, 2003). Some of the risks faced by the private partner include inability to complete the development, lack of support from the public partner, and insufficient revenues from the project (Hardcastle & Boothroyd, 2003). The public partner faces risks like the private partner not completing the project, increases in required funding due to private partner inefficiency, and the potential for fraud or malfeasance on the part of the private partner (Hard castle & Boothroyd, 2003). There is also a conflict stemming from the involvement of a private party driven by the profit motive – the conflict between the profit maximization motive and the requirement for specific services for the beneficiaries (Hard castle & Boothroyd, 2003). For example, in an affordable housing development, the developer may reduce the quality of materials in order to increase cost. Research about real estate in Haryana has indicated that public-private partnerships were not the miracle growth makers that were expected in the 1990s (Krumholz, 1999). Instead, despite constant support of a large number of such projects (including not only affordable housing, but also stadiums, markets, and other public infrastructure provisions), the unemployment and poverty continued to increase in some cities (Krumholz, 1999). One of the main problems with public-private development, both in theory and in practice, is that there is an overarching focus on the needs of the initial parties (the government and private developers) and less focus on the needs of the end users of the housing or other services that are being provided (Sagalyn, 2007). According to Krumholz (1999), the cities that experienced inadequate outcomes from their public-private partnerships were also those that had a high inequity between social - 37 - redistribution and profit – in other words, where development was an issue of real estate profits rather than job creation (Krumholz, 1999). By realignment of public-private partnerships toward community-based practices, redistribution of benefits was seen to improve the outcomes of these partnerships (Krumholz, 1999). The goals of publicprivate development may often come into conflict with the goals of appropriate city planning, particularly in cases where long-term development of an area is eschewed in exchange for rapid, inexpensive development by private developers (Godschalk, 2004). This conflict is indicative of the lack of focus on the needs of the end users, as noted by Sagalyn (2007); while the needs of the city for immediate affordable housing and the developer‘s profit motive are considered, there is little attention paid to the needs of the residents for livable and sustainable communities (Godschalk, 2004). This, like the destructive

urban renewal policies of the 1950s and 1960s, can lead to city developments that are not sustainable in the long term (Godschalk, 2004).

Provision for settlement of dispute pertaining to apportionment of the compensation amount is available under section 30 of the Act. In such a situation, the Deputy Commissioner should refer the matter to the court. The claimant will be entitled to the compensation which is determined on the basis of the market value of the land determined as on the date of preliminary notification. According to section 34, if there is delay in payment of compensation beyond one year from the date on which possession is taken, interest at the rate of 15 per cent per annum shall be payable from the date of - 43 - expiry of the said period of one year on the outstanding amount of compensation until the date of payment. Judicial Interpretation of the word "Dispute" in the land acquisition proceedings—State of Madras Vs. B.V. Subramania Iyer AIR 1962 Mad. 313- The Word ―Dispute‖- Includes any controversy with regard to the title of a single claimant- The word _dispute‘ has been used in a wide and not in a literal sense and implies any controversy at to title, whether as between the actual claimants, or as appearing from the documents made available by the government. It is obvious that when the government exercises its power of eminent domain and acquires property, Public funds have to be utilized for the payment of compensation to the true owner, and not merely to any claimant who cares to appear on the scene. The government has a special responsibility in this regard, and cannot later take refuge behind the pretext that the compensation was paid to the claimant who actually appeared while others did not appeared. So long as that is the situation the acquiring officer has a right to make such a reference, even if a dispute or controversy as to the arises on the documents before him. He cannot be made liable for costs, and it is the party who has to bear the costs incurred in establishing the title, of the party to receive the compensation amount. Status of the Tenant occupying the land to be acquired under Land Acquisition Act, 1894—M/s Indarprastha Ice and Cold Storage Ltd. Vs. Union of India AIR 1987 Del 171- Tenant is entitled to only a nominal compensation- Only a nominal portion of the compensation of the acquired land is to be paid to the tenant and substantial amount has to be taken by the landlord. The tenant is not entitled to 1/3 or 1/4 of the amount of compensation on the basis of judicial decisions relating to agricultural land on which the tenant had a right to purchase under Section 18 of the Punjab Security of Land Tenures Act. The tenant is only entitled to 1/8 share of the compensation

The market value of the land acquired was however frozen to the date of the notification under Section 4(1). In order to relieve the hardship of the persons interested in the land (hereinafter compendiously termed as 'landowners' for the sake of convenience), the legislature for the first time introduced sub-section (1-A) in Section 23 of the principal Act by the amending Act. This sub- section enjoins the grant, in every case, of a further amount in addition to the market value. The amount is to be calculated at the rate of 12 per centum per annum on the market value for a specific period, namely, the period commencing on and from the date of the publication of the notification under Section 4(1) and ending with the date of the award of the Collector or the date of taking possession of the land, whichever is earlier. The Explanation to the said sub-section (1- A), states that in computing the period for which they said amount is to be granted, any period or periods during which the proceedings for the acquisition of the land were held up on account of any stay or injunction by the order of any court, shall be excluded. This provision like the one for solatium in sub-section (2) of Section 23, is a substantive one. Unless therefore, there is a statutory mandate, neither this provision nor the provision for the increased solatium can be given retrospective effect. It is here that the role of Section 30 of the amending Act (hereinafter referred to as 'Section 30') which makes provisions for the transitional period, viz., the 611 period between the introduction of the Bill of the amending Act and the commencement of the said Act, comes into play. It is the interpretation of the said Section 30 and its bearing on the provisions of Section 23 which has become a matter of controversy and a subject of conflicting decisions of this Court as stated at the outset. 15. The relevant provisions of Section 30 have already been reproduced. An analysis of the section shows that it deals separately with the two different benefits which the amending Act has conferred on the landowners. Sub-section (1) thereof deals exclusively with the provisions of sub- section (1-A) of Section 23 of the principal Act while subsection (2) thereof deals exclusively with the provisions of sub-section (2) of Section 23 and Section 28 of the principal Act, as amended by the amending Act. In the present proceedings, we are concerned with the applicability of the newly inserted subsection (1- - 51 - A) of Section 23 of the principal Act and not with the amended Sections 23(2) and 28 of the principal Act. However, since some decisions of this Court have tried to project and rely upon sub-section (2) of Section 30 for the interpretation of sub-section (1) thereof and also for the interpretation of Section 23 of the principal Act, it will be necessary to refer to the provisions of Section 30(2) also in the course of the discussion that follows. 16. Sub-section (1) of Section 30 in its turn deals separately with two classes of cases. By clause (a) thereof it makes the provisions of Section 23(1-A) of the

principal Act applicable also to and in relation to every acquisition proceeding pending on 30-4-1982 i.e. the date of the introduction of the Bill of the amending Act, in which no award has been made by the Collector before that date. By its clause (b), it makes the provisions of the said Section 23(1-A) applicable also to and in relation to every acquisition proceeding, commenced after 30-4-1982 whether the Collector has or has not made an award before the date of the commencement of the Act, i.e., 24-9-1984. It is further clear that sub-section (1) of Section 30, deals exclusively with the power and the jurisdiction of the Collector in the proceedings before him. It does not deal with or refer to the power either of the reference Court under Section 23 of the principal Act or of the appellate Court such as the High Court and the Supreme Court. With respect, it is the failure to appreciate the sine qua non of the provisions of Section 30(1) which is responsible for misinterpretation of, and wrong conclusions with regard to the applicability of Section 23(1-A). These transitional provisions with regard to the proceedings pending before the Collector were necessary, for without them it would not have been permissible for the Collector to give benefit of Section 23(1-A) to the landowners concerned. The legislature not only wanted the reference Court under Section 23, but also the Collector under Section 11 of the principal Act, to give the benefit of Section 23(1-A) in the proceedings pending before them. This is as it should be, for Section 15 of the principal Act requires the Collector to take into consideration the provisions contained in Sections 23 and 24 while determining the amount of compensation to be awarded. To get his due compensation, every landowner need not be obliged to ask for a reference under Section 18 nor is every 612 landowner in a financial position to do so. It is common knowledge - 52 - that many a land acquisition proceedings come to an end at the stage of the Collector, and only some cases travel to the reference Court and thereafter to the appellate Courts. Secondly, Section 30(1) while giving the power to the Collector to grant the benefit of Section 23(1 A), also places a restriction on the said power. The Collector is empowered to grant the said benefit only in those proceedings which are pending before him on 30-4- 1982 and in which no award has been made by him before that date. That is understandable since the proceedings would be pending before him on 30-4-1982 even after he has made his award, either for making a reference or for payment and distribution of the compensation. In such cases, he is not empowered to give the said benefit by reopening the award. If the reference in such proceedings is ultimately made under Section 18 of the principal.

Economic Development

While there is a growing number of certification efforts, most notably those sponsored by IEDC, academic ―Economic Development‖ departments, and concentrations, and degrees are uncommon, and few universities even offer courses in the discipline. In a sense, economic development as a practice can only really be examined in the context of competing jurisdictions. The primary objective of all economic development professionals is to induce some kind of economic activity 7 to take place in, or somehow benefit the citizens of, some particular location or jurisdiction, that wouldn‘t otherwise have occurred (at least to such an extent). Obviously, economic activity will take place somewhere. As a result, the profit-making opportunities of businesses and ultimately the consumption opportunities (and hence the standard of living) of the citizens in that locale will rise. Of particular concern to some is that this economic activity, or economic growth, is not necessarily efficiently, and clearly not evenly, distributed across the geographic or political terrain. We then have the requisite initial ingredients of PPP approaches to economic development: cases where particular business and public interests in inducing or increasing some type of economic activity are aligned. - 145 - Kayden (2002) provides an excellent overview, consistent with our framework: Although some development occurs within a context of traditional and distinct roles and responsibilities undertaken by local governments and private developers, an increasingly common pattern reveals blurred boundaries and surprising reallocations as each party participates to a greater extent than before in what the other does. Of course, the record of ―public and private development‖ follows a jagged trajectory, increasing or decreasing according to political shifts, budget realities, and economic performance. Nonetheless, if the rhetoric of the so-called ―public private partnership‖ exaggerates the reality, much urban development today is highly commingled under public subsidy or regulatory umbrellas. We have selected two standard state and local economic development functions where PPPs are used and are likely to be used more in the future. While they encompass key types of economic development strategies and programs used by state and local governments to help their jurisdictions compete for investment and economic activity for their specific locations, our primary focus is on their use of PPPs in those efforts.17 Businesses and politicians tend to hype the benefits—primarily jobs and economic growth—of organized economic development efforts without a great deal of measurement and statistical analysis of the purported link between the efforts and the outcomes. Academics, for their part, have tended to apply more rigorous cost-benefit analyses to particular economic development programs or projects (including those undertaken by PPPs), and perhaps not surprisingly don‘t always report positive net benefits. These findings

may be in part due to their evaluating standalone actions, and utilizing rather narrow measures of benefits.18 If we have learned anything about economic growth, it is certainly that it is the result of many market and collective forces acting simultaneously, which makes measurement of particular components, and hence identification and evaluation of marginal impacts, problematic. One measure of the acceptance of a concept or approach is the formation and continuing operation of an organization with a mission to advocate and promote it. The National Council on Public-Private Partnerships (NCPPP) is the prime example in this arena, while other economic development organizations, most notably the National Association - 146 - of State Development Agencies (NASDA) and the International Economic Development Council (IEDC, formerly CUED) have increased their focus on PPPs, undoubtedly due to the interest of their memberships. These sources are cited throughout this review. 8 What This Review is NOT This review does not cover all types and applications of public-private approaches to government intervention into the private marketplace, important and interesting as they may be. Also, as mentioned above, this review is not meant to serve as a step-by-step primer for practitioners engaged in or desiring to establish PPPs. Three excellent sources should be very helpful readings for the economic development practitioner engaged in or thinking about PPPs: 19 The first is John Stain back‘s Public/Private Finance and Development: Methodology, Deal Structuring, & Developer Solicitation, published in 2000. In this book, Mr. Stain back describes in a clear fashion a framework for establishing and undertaking PPP real estate projects, focusing on the various steps, components, and players involved. Drawing on his extensive knowledge and experience in the field, he includes detailed case studies and catalogues specific checklists of steps to take. The second is a 1999 publication from the British Columbia (Canada) Ministry of Municipal Affairs entitled Public Private Partnership: A Guide for Local Government. This very detailed and readable work covers the PPP process from A to Z, including advising the decision-making process by the public entity to partner with the private sector, implementing the partner selection process, negotiating the partnership agreement and pointers on working with the partner on the actual project. Although the legal terms are specific to British Columbian and Canadian laws, the basics of the partnership discussions are also applicable to U.S. economic development practitioners. The third is a chapter, written by Professor Lynne Sagalyn, entitled ―Meshing Public and Private Roles in the Development Process,‖ in the Urban Land Institute‘s popular economic development tome Real Estate Development: Principles and Process, 2nd ed., 1996. This informative work comments on the changes in development practice leading to PPP

approaches, and concentrates on the process of PPP formation and the various practical - 147 - problems associated with implementation. The results of the weak form efficiency test reported by Guntermann and Norrbin (1991) argue that the real estate market is inefficient, although infrequent trade in property, unique attributes of real property, the local orientation of the market requiring specialized knowledge of the factors that affect risk and return, transaction and financing costs and, tax considerations make exploiting profits a difficult task. They suggest that the real estate market may be efficient ex ante when an estimate of expected appreciation is included using a market model into the tests of market efficiency.

Efficiency Tests Dealing With Market Fundamentals

Efficiency tests dealing with market fundamentals without direct reference to three versions of the EMH are examined in this section. There are numerous studies addressing the issues of price volatility, bubbles, cycles, and price dispersion in the real estate market. If the prices are determined by the movements of economic fundamentals, then these studies define that as evidence supporting market efficiency. For instance, even a simple lagged supply response to price changes is sufficient to generate real estate cycles, but such pricing is not assumed to be inefficient, because, it is excess volatility which creates bubbles that lead to market inefficiency. Shiller (1990a) argues that speculative asset prices tend to show excess volatility relative to models of market efficiency using - 155 - the simple present value approach, and the speculative prices are partly predictable due to the tendency to return to the mean values. He further notes that most of the evidence confirms substantial excess volatility in the asset markets. If stock prices are strongly correlated with dividends, then it could be concluded that the movements in stock prices are driven by fundamentals irrespective of whether the speculative prices are too volatile or not. Therefore, presence of excessively volatile prices, bubbles or cycles created as a result of speculation, or price dispersion would imply there are inefficiencies in a market. The readers should bear in mind that price volatility, bubbles, and cycles could be interrelated and could co-exist in a specific real estate market. Malpezzi and Wachter (2005) describes if prices are apparent, participants have good information about at least present prices. In illiquid markets like real estate markets, the costs of ascertaining prices can be costly, and therefore, these prices can be volatile. Moreover, activities of the short-term investors who do „short selling contribute to price volatility. When the prices are volatile, it becomes difficult to be informed about all the prices unless there is a continuous flow of accurate information. The erroneous expectations of the investors who are based on adaptive

expectations or extrapolations also cause price volatility. If the past price increases were extrapolated in formulating expectations (speculation), then this is likely to lead to classic speculative bubbles, because optimistic investors are speculating on a continuation of price appreciation without cyclic effect from the demand or supply fundamentals. They also argue that the speculation strongly related to supply conditions contributes to boom and bust cycles in housing and real estate markets. Malpezzi and Wachter (2005) have empirically argued that real estate speculation is linked to volatility in land prices, and in turn to the elasticity of supply. The effects of speculation appear to be dominated by the effect of the price elasticity of supply, and the largest effects of speculation are only observed when supply is inelastic. Malpezzi and Wachter (2005) also explain how the weak form efficiency contributes to price cycles. They draw from the ―Random walk‖ hypothesis, and maintain that the weak definition of - 156 - EMH dominates in the contemporary literature. Accordingly, the changes in the asset price follow a random pattern and the future prices cannot be predicted based on past price information, and as a result, neither excess investment profits nor incentive for speculation be available. Nevertheless, there is enough evidence that the real estate markets are far from perfectly efficiency. Malpezzi and Wachter further argue that when there is perfect or near perfect information, there is a room for speculation, because excess profits could be earned by the investors who know how the other investors value real estate based on prevailing market conditions. In addition to Malpezzi and Wachter (2005), Borio et al (1994), Case et al (1997), and Wheaton (1999) published that the real estate prices are by their nature prone to cycles. Atterhog (1995) suggests that real estate prices and rent growth expectations are central to the pricing of real estate, and the primary factor causing these cycles is the speculation. However, there are many other determinants of cycles available. Demographic and economic fundamentals, financial conditions and banking policies, and supply conditions, such as natural geography and the regulatory environment for development are a few among them (Pollakowski and Wachter, 1990; Malpezzi, 1999; and Case, 2000). Following the findings that real estate assets may be a hedge against unanticipated inflation (Park et al., 1990), and real estate assets may not reflect market fundamentals (Scott, 1990), Fogler et al. (1985) advocate that the real estate may have exhibited high returns due to unexpectedly high inflation and that investors perception plays an important role in causing possible anomalies. These anomalies could create volatility or dispersion in house prices which in turn lead the real estate market in to inefficiency. In his recent book, Ball (2006) has offered an empirical explanation about house price cycles. He acknowledges that several European countries have seen significant

hikes in real house prices over the past two decades, particularly Spain, Ireland, the Netherlands, the United Kingdom and Belgium. The irregularity of house price cycles shows through in house price volatility. Price volatility for the countries varies considerably over time, which suggests that these housing markets are inefficient. He further ascertains several factors including increasing shortage of land, rising costs of house-building (slower - 157 - relative productivity growth or mounting skill shortages), and failure to take account of housing quality changes affect the long-run house prices those causing the house price cycles. Fu and Ng (2001) noted that several features of the real estate market typically prevent rapid price adjustment. Momentous search time and cost required to match buyers and sellers and nonexistence of short selling make it hard for the investors to act on market news immediately. On the other hand, the transactions in the real estate market are decentralized making it costly to gather information. Moreover, using Hong Kong real estate and stock market data, they found that the quarterly real estate price incorporates only about half the effect of market news, whereas the quarterly stock price incorporates the news fully. Hong Kong has one of the most efficient real estate markets in the world, yet real estate returns in Hong Kong exhibit very similar features documented in other countries such as high serial autocorrelation, relatively low volatility and low correlation with stock market returns. The conclusion of the investigation by Clayton (1996) states that the risk premium on unsecuritized commercial real estate varies over time and is strongly related to general economic conditions. The author finds evidence that the time variation in real estate risk is partly predictable, and thus can be of help in forecasting future movements in commercial property values. The analysis supports the argument that changes in commercial property prices are driven more by changes in expected returns over the changes in current and expected future property income in periods surrounding major market movements

There are several studies that resort to Positive-feedback Hypothesis in explaining the efficiency of the real estate market. Pollakowski and Ray (1997) justify applying the „Positive-feedback hypothesis to the housing market. Positive-feedback hypothesis states that the recent strengths (or weaknesses) in one submarket persuade positive (or negative) attitudes that lead to a greater than expected effect of the news on asset prices. Accordingly, the news of a negative shock to a given real estate market would impact potential home buyers by making them aware of the risk of owning them. Based on this argument, this paper evaluates the interrelationship among housing price changes in different US census divisions and in different

primary MSAs within a consolidated MSA. The results of the census division analysis exhibit different diffusion patters while the MSA analysis confirms diffusion between neighbouring areas. Evidence indicates that not all movements in asset prices can be accounted for by news about fundamental values. Accordingly, Cutler et al (1990) agree that demand from the traders is based on the history of past returns rather than the expectation of future fundamentals, therefore, incorporate the positive-feedback hypothesis into their analysis. The study sheds some light on the fact that repeated analysis of the single time-series on US stock returns could create subsequent patterns. The discussion is then extended to evaluate an alternative framework to capture fluctuations in speculative prices. The authors seek to determine whether the regularities that appear in the US equity returns are common in the other asset markets as well. Considering the speculative process, the paper tries to identify common patterns across different markets given the risk factors operate differently in are similar across markets. Shiller (1990a) supports the Positivefeedback hypothesis, and suggests a simple feedback model of observed volatility of speculative prices and the pattern of feedback of price to dividends or earnings. Leung et al (2006) have empirically argued that the efficiency of a market is challenged when - 164 - price dispersion occurs. Using a sample of urban residential property in Hong Kong, they found a relationship between skewness of the housing prices and the movement of the macroeconomic variables. The statistical tests confirmed an interaction between the standard deviation of the housing prices and macroeconomic variables including the budget ratio, the trade ratio and the economic growth rate. They concluded that house price dispersion exists, and the degree of dispersion changes systematically with some macroeconomic factors. Another contribution to the Positive-feedback hypothesis is found in De Long et al. (1990). This paper criticizes the previous papers that claim rational investors resist or oppose obstinately the irrational speculation, to bring prices closer to fundamental values. Rather, Positive-feedback investors are present in the market and, it might be rational for the speculators to follow the footsteps of those investors. Additionally, some rational speculators would buy assets today expecting that „noise traders will buy at a higher price in the future. The authors demonstrate that purchases by rational speculators would encourage other positive feedback traders to buy assets, moving prices further away from fundamental values (destabilizing speculation). Additional evidence supporting the Positive-feedback hypothesis is presented by Clappand Tirtiroglu (1994). They perform a test of Positive-feedback hypothesis using data for the housing submarkets in Hartford, CT. The authors relate to the general tendency to overemphasis the most recent evidence, and suggest that the changes

in housing prices in a given submarket not only depend on their lagged values, but also on the lagged values of the house price changes in the neighbouring submarkets. Their conclusion states that the housing prices tend to disperse throughout a metropolitan area and the decisionmakers use information on recent rates of change in asset prices to determine their purchasing decisions. In this research, we discussed the question whether or not the real estate market is efficient. This question is of eminent importance for all policies that either attempt to influence the spatial structure of an area or the design of buildings. Efficiency of the real estate market is necessary for an adequate response of the economy to such policy measures. After discussing the Efficient Market Hypothesis (EMH), the conceptual reference point for the analysis of market efficiency, we discuss - 165 - the empirical evidence on efficiency of financial markets, the markets usually considered to be more efficient. The evidence that we find in the literature is mixed. While some implications of the EMH are generally supported by the empirical evidence, others are not. In sections 3 and 4 of the paper, we turn to the real estate market. We look at three aspects in particular: the availability of information, price volatility- cycles- bubbles, and price dispersion. As it turns out, the results regarding the real estate market are inconclusive. Although there is strong evidence of inefficiencies arising from imperfect information, transaction costs, production time lags, price volatility, and cyclical factors etc., there are also claims that the real estate market is generally efficient. To what extent this is the result of aggregation, where the effects of the well known sources of distortion at the micro level are levelled out by aggregation, seems to be an interesting topic for further research.

The research approach that has been chosen is strongly qualitative, an approach that was chosen given the limitations of the study (including the small number of participants and the complexity of the information desired). The suggested data analysis approach is the narrative analysis technique, in which the survey and interview data will be used to construct a narrative of the positive and negative features associated with the history, current state, and future of the public-private partnership in the city chosen. This narrative approach will first use open coding in order to identify the response categories associated with the questions in the survey (Creswell, 2009). This approach will help to identify more or less common themes in the responses; focusing on the meaning of specific phrases, by collapsing individual wording into a single meaning relationship, will allow for identification of themes and meaningful ideas that are repeated through the surveys. This can then be further expanded by comparison with the

outcomes of the interviews, which will be with individuals that have extensive knowledge regarding the - 169 - historical and future practice of public-private partnerships. Feedback from both the survey and interviews can then be combined into a historical account and analysis of public-private partnerships in the city and a preliminary assessment of their effectiveness. This should be supported by other materials, including secondary research, government reports, and if necessary internal documents, that also reflect the historical process and the effectiveness of the public-private partnership in this area. The outcome of the analysis process should be a full historical narrative regarding the use of public-private partnerships, including motivations for the programs, scope, effectiveness, and likelihood for continuance of the program. While PPPs enjoy widespread support as approaches to economic development, there are important issues concerning their nature, the process for determining their appropriate use, and, ultimately, their effectiveness. Since economic development practitioners must deal with all of these issues, awareness of past experiences and analyses may be helpful. Governance: Perhaps the central issue or concern is the appropriateness of mixing private activity with public activity at all.22 at the core of this concern is whether the private profit motive is fundamentally incompatible with public purpose. The term governance has been defined in many ways, and has recently been the subject of significant theoretical study of political economy and political science. Most consider it separate and distinct from government, which typically refers to the institutional framework for society‘s collective decision making. Stoker (1998) blends several definitional themes into a ―baseline‖ definition that emphasizes the process of making public decisions: it refers to the action, manner or system of governing in which the boundary between organizations and public and private sectors has become permeable. The essence of governance is the interactive relationship between and within governmental and non-governmental forces. Some have linked governance to the shift in government‘s traditional role from ―rowing to steering‖ as suggested in Osborne and Gaebler‘s 1992 Reinventing Government. Consequently, concern about the relative roles and distribution of costs and benefits - 170 - between the public and private partners—and how the public decision-making process is set up to determine these—is the focus of recent studies on governance of PPPs.

Conclusion

This research work has presented an approach that will be used to examine the problem of public-private partnerships in a single municipal area. The literature review demonstrated that

public-private partnerships for management of affordable housing in the urban area originated in the 1980s and 1990s, following the development of a smallgovernment approach that attempted to deregulate or devolve as many services as possible, and that it has continued over time. The justification for the public-private partnership in affordable housing is that the private sector is considerably more efficient at management than the public sector; by providing public funding and a mandate to the private industry for development of affordable housing, it is possible to provide a higher level of affordable housing for a lower cost. However, in practice this has not been seen to be as effective as it is in theory. Research has indicated that the public-private partnerships are prone to a considerable number of potential problems that reduce the effectiveness of the public-private partnership for the affordable housing industry. This paper also proposed preliminary interview and survey questions that can be used to collect information about public-private partnerships in the affordable housing operations of a given urban region or municipality. Although this research could be conducted in any municipality that has used public-private partnerships, the selected municipalities are Chicago, New York and Boston. These three cities were some of the earliest adopters of public-private partnerships, as well as having some of the highest levels of affordable housing stock in the country. However, only one city is required for the study, which allows for flexibility in conducting the study if there was no way to gain access to the - 186 - housing authority or if there were no suitable people in the housing authority with the appropriate historical knowledge to provide the insights required. Economic development practitioners are faced with an ever-changing economic and demographic landscape with increasingly tougher competition from other jurisdictions for location of business investment and economic activity. And they face this with decreasing financial and nonfinancial resources at their disposal. The lure of potentially leveraging private capital, not to mention soliciting private-sector assistance in general, will in all likelihood grow stronger. If not already, these practitioners will often be faced with the option of approaching some economic development effort via a PPP arrangement. A basic understanding of the experience of their peers can be helpful. Overall, it appears obvious that PPPs will continue to grow in importance as an approach to the practice of economic development, particularly in the two areas of this study: Ongoing ED Functions and Development Projects. They are generally considered to be effective, in that both the public and private sectors appear to derive benefits from such arrangements. From a diverse literature and practical experiences, we can cull several implications of interest to economic development practitioners.

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