

# Effect of Economic Slowdown on Construction Industry

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**Abstract**— The project titled ‘Effect Of Economic Slowdown On Construction Industry’ is significant in the sense that it aims at obtaining relative information about construction industry at present and the way ahead in future. Also to analyse and know about the demand and supply of real state spaces, material required, architect, engineering professionals required in future to meet future demands. The sector has demand implications for intermediate inputs like steel, cement, etc., while keeping afloat the whole construction industry including transport and other intermediate labour services. Given its importance for the economy it is worthwhile to see how adverse expectations are playing a role in this sector.

**Index Terms**— Economy, construction, labour service, moderation, financial sectors.

## I. INTRODUCTION

To begin with let us define the term Recession, recession is a decline in a country's gross domestic product (GDP) growth for two or more consecutive quarters of a year. A recession is also preceded by several quarters of slowing down. An economy which grows over a period of time tends to slow down the growth as a part of the normal economic cycle. An economy typically expands for 6-10 years and tends to go into a recession for about six months to 2 years. A recession normally takes place when consumers lose confidence in the growth of the economy and spend less. This leads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment.

The Real Estate industry in India witnessed unprecedented growth in a relatively short span of time. With most companies having seen only the upward swing, the economic downturn proved to be a litmus test. Companies with stronger fundamentals and ability to make quick strategic decisions continued to operate, though with reduced visibility and size of operations, the weaker ones found it challenging to retain their position and image as a Real Estate developer.

Construction industry plays a critical role in all the developmental sectors like, agriculture, irrigation, energy, transportation, communication, manufacturing, housing, civil infrastructure and social services.

Construction management (CM) or construction project management (CPM) is the overall planning, coordination and control of a project from inception to completion aimed at meeting a client's requirements in order to produce a functionally and financially viable project.

In any activities like essential developments, innovative constructions, the various processes are very important.

Design development and reviews from time to time including all disciplines of engineering with cash flow analysis checks.

Procurement phase Constructions - execution with Latest trends and construction documents.

The impact of recession is averted by the Government intervention, and certain efforts in Housing have in fact helped the economy grow and vice versa explained by Dr. Narendra Kothari (2011)

This paper aims at analysing the flow of FDIs in real estate sector in India and the impact of the global recession on the FDI flows along with the RBI initiatives for attracting more FDIs into the real estate sector.

Avinash M. Nafday, EC Harris explained Professional engineering firms are exposed to unpredictable business cycles owing to fluctuations in the macroeconomic environment. The National Bureau of Economic Research NBER has monitored U.S. business cycles since 1929 by mapping changes in national economic activity using a complex set of macroeconomic.

The increasing presence of a large number of international firms, especially those within the financial services sector is helping to drive forward the real estate market.

## OBJECTIVES

- Analyse the effect of economic slowdown on builders community.
- Analyse the effect of economic slowdown on material supply system.

## II. METHODOLOGY

### 1. Introduction

At present, the government allows FDIs in real estate, but does not permit foreign institutional investment. It is, however, considering a proposal not to view FDIs and FII as distinct investment flows while specifying an overall limit. It is yet to permit foreign

venture capital investors (FVCI) in the realty sector. To ensure that the concept of special economic zones (SEZs) did not distort the realty market, the RBI has classified lending to SEZs on par with commercial real estate, according it higher risk weight and provisioning. India in the next five-year period is estimated to require investments worth US \$ 25 billion with the urban housing sector. This again has opened up opportunities for foreign investments in the realty sector. The Central government allowed up to 100% FDIs for setting up townships in 2002. However, the flow of FDI's investments has been thwarted by the 100 acre criterion; since acquiring such a large chunk of land was impossible in metropolitan cities and even satellite cities and state capitals.

### 2. FDI RULES (HOUSING)

The Government of India has set up certain guidelines for investors willing to apply in FDIs in real estate, which has conditions like requirement of minimum area, investment options and target for completion of a project. Minimum area: In case of development of serviced housing plots, 10 hectares (25 acres). In case of construction-development projects, built-up area of 50,000 sq m. In case of a combination project, any of the above two conditions to be matched. Investment: Minimum capitalization for wholly owned subsidiaries -US\$ 10 million. For JV with Indian partners - US\$ 5 million-, to be brought in within 6 months of commencement of business. Original investment cannot be repatriated before a period of three years from completion of capitalization. The investor may exit earlier with prior approval from Foreign Investment Promotion Board (FIPB). Time frame & rules: At least 50 per cent of the project to be developed within five years from the date of obtaining all statutory clearances. Investor cannot sell undeveloped plots - where roads, water supply, street lighting, drainage, sewerage and other conveniences are not available.

#### a) Stage I:

Surveying of builders community for effective information

#### b) Stage II:

Efficient interaction with material manufacturers and suppliers

#### c) Stage III:

Study effect on materials and labours

It is likely that the ongoing delivery of major construction projects in India will be boosted by the continued growth of the economy, by foreign direct investment and an influx of international businesses and corporations. These factors are expected to create an increased demand that will cause tender prices and soft costs to increase for the foreseeable future. It would be prudent however to view the current growth with an element of caution; there is still a high level of national fiscal debt and there remains the risk of a slowdown in government spending. Investor sentiment over the coming year is likely to be adversely affected by concerns about ongoing corruption and lack of transparency issues, but despite this there are strong signs that large 'Blue-Chip' corporations are taking the plunge and investing in India. To meet the anticipated ongoing sustained demand, there is likely to be a period of 'catch-up' which could see shortages of skilled and experienced resources and a temporary spike in labour costs, all of which could impact on the affordability and deliverability of construction projects. Materials costs will also continue to increase as demand picks up; as a result project teams will have to carefully factor in the associated lead-in times of M&E plant and equipment, as well as cladding and other technology intensive components. World commodity price rises are also expected to lead to factory gate price increases. As companies become more established within the region and the real estate sector grows, supply within the construction sector itself will eventually increase to meet demand, resulting in more competitive tender prices. However, this could take a good few years to play out, and the alignment of supply and demand will probably not happen anytime soon. There are also certainly some ingrained challenges such as regulatory hurdles, land acquisition, inadequate design and planning capability. This, with an historic culture of rampant scope creep, material cost escalations, non-availability of quality vendors for material supply, and a record of missed delivery dates, could all have an impact on project programme and cost. In terms of Commercial Real Estate, immediate demand is likely to catch up and overtake current supply until new projects are released into the market. This is likely to lead to rises in rents, proportional to demand, followed by falls in the longer term, as new, better quality commercial space becomes available. Based upon these indicators and an overview of the market the EC Harris view is that increased levels of tendering activity within the construction sector will see tender prices will increase by 5-7% over the next twelve months.

## III. PROBLEM STATEMENT

### i. Name of the builder : MARVEL BUILDERS

QUESTION : Real estate in pune is highly fragmented, capital intensive in nature. How does it affect developers fraternity in such uncertain situation?

**ANSWER** : The real estate sector plays an important role in Indian economy contributing around 6.5% to the GDP. Though the sector is highly fragmented and capital intensive, it is yet to receive industry status. As it has close linkages with economy any adverse changes in the macro economics factor affect cash flow to the developers.

**QUESTION** : In how many cities are you executing projects?

**ANSWER** : There are about 7 cities across India where we are doing our projects. By 2015 we propose to add a few more cities and also pune suburbs.

**QUESTION** : How do you handle such vast number of project in such uncertain times?

**ANSWER** : As a developer we are using different business model, where we are setting up joint ventures with land owners since buying too much land can hurt. To hold power in bad economy we are developing project building by building and selling one fully before starting with the next.

**QUESTION** : As a prime developer what is your take on the slow rate of approval, declining demand, etc?

**ANSWER** : The real estate sector is currently facing challenges including high land cost, delay in approval, liquidity issues both at buyers as well as developers levels, lack of infrastructure as well as skilled man power. But in pune region absorption level has dropped for luxury residential segment which are high priced and therefore keeping buyers away from the market. Nevertheless, pune is facing housing shortage primarily in the mid income range.

#### IV. RESULT

The current construction industry practices in India are using the same labour intensive techniques which are extremely time consuming and lacking the accuracy and finishes otherwise achieved by the precast technique. The current growth pattern of the Indian economy has boosted the growth of the country in almost all the states, making the skilled workers travelling from these states almost difficult. This is causing the project delays and missed targets.

All the multinationals moving in country is expecting faster and superior quality construction, which can be achieved by using precast technology. Hence build team has decided to enter the market with different building systems. Hollow core prestressed slabs is a product used all over the world.

#### CONCLUSION

Following conclusions are obtained after doing survey as follows

- a. The objective here is to guide engineering practitioners in identifying these key internal and external factors and introduce a systematic approach for selecting the right strategy, tailored to the unique characteristics of their organization.
- b. Professional engineering firms can then choose appropriate strategies matching their firm's resources and capabilities to the external environment for success during economic downturns.
- c. FDI's flows in India can encourage and organize the realty sector and thereby also create better employment opportunities in this sector.

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