

Demonetisation: How badly hit is the unorganised real estate and hospitality sectors

by [Vanita Akhaury](#) Dec 1, 2016

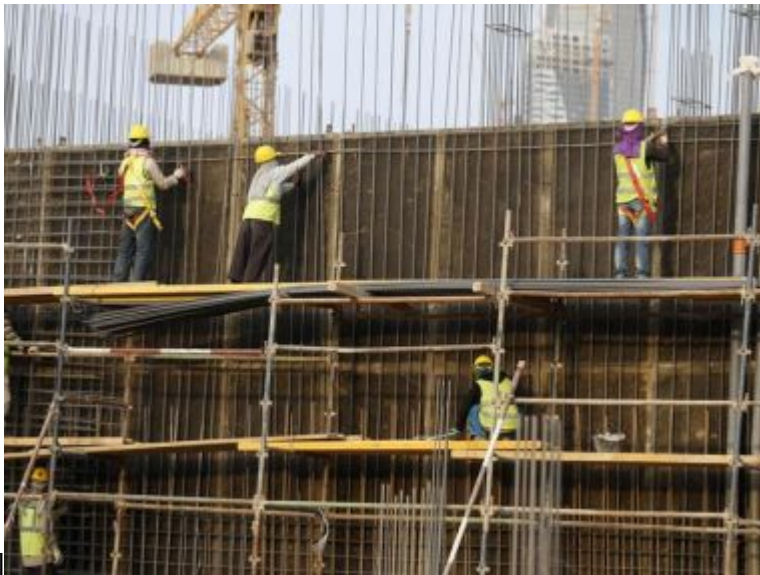
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The problem is that the move of demonetisation has sort of synonymised cash transactions with black money.

Let us take few facts into consideration. “Between the CSSO and NCEUS data, anything between 80 to 90 percent of businesses in India lie in the unorganised sector, which also contributes to half of our country's GDP. This isn't ‘black’ per se to the extent that it avoids taxes, but is not supported by the extensive paperwork that one would find in the organised, formal sector. Construction industry, including real estate, is about 6 percent of the GDP - so there is no reason to believe that a part of this is not covered in the informal or unorganised sector,” states the Royal Institution of Chartered Surveyors (RICS), a professional body for qualifications and standards in land, property, infrastructure and construction.



Reuters

What does the informal or unorganised sector contain? For one - a good deal of material and labour supply, most - if not all of which is handled in cash payments itself. The cascading effect of demonetisation has affected real estate at different levels. According to RICS, with about 86 percent of currency in the market gone, and being replaced with a miniscule number of replacement notes, it is not difficult to understand why one can see people standing in labour stands in a season which traditionally sees maximum number of productivity days, and the general low activity on construction sites.

Similarly, materials sourced from unorganised sector - bricks, sand etc. also rely significantly on cash; as do transporters. Again sub-contracting, which has now become a norm in most projects, is badly hit. RICS holds the view that till the liquidity position improves, we should not expect this situation to improve, and in the interim period, we could well be seeing multiplier effects - households that were probably on the threshold of poverty now stand the risk of slipping back into deprivation as the informal sector collapses.

Hospitality is one other sector which has been stressed in the short term. In India, the good season for this sector extends from October to March, which by and large defines the success for this industry in any given

year. Given the larger base of hotel rooms in the country is in the unorganised sector, the lack of available currency is forcing some hospitality customers to either postpone / cancel their travel and accommodation. Or to use hospitality products that easily allow the use of the other modes of payments.

Mandeep Lamba, Managing Director - Hotels, JLL India says, “The hospitality and the tourism markets are renowned for their ability to create a large number of direct and indirect jobs in the country.” In the current demonetised scenario, with the inability of customers / tourists to easily spend on frills due to lack of available currency, the unorganised industry is suffering the most in its ability to create new jobs.

The impact of demonetisation is also being felt by the suppliers of consumable goods, who often work on cash transactions with their wholesale counterparts. Also, impacted by this move is the unorganised inventory of hotels in the industry.

In addition, the leisure sector hotels and restaurants segment are seeing a higher impact on account of the discretionary nature of spending in this sector, and the substantially larger base of cash transactions that occur in it when compared to mainstream business hotels.

Hopefully, Lamba adds, “As more liquidity enters the organised sector along with some further softening of land rates and gradual movement towards cleaner real estate transactions, we anticipate investments into the sector to increase from the organised players who have, in the past, shied away due to complexities associated with underlying real estate.”

According to a World Bank release on Ease of obtaining Construction Permits Index, India shockingly ranks at 183rd position out of a total of 187 countries. It puts us in the same club as war-torn countries where institutions have collapsed and literally offices which accord approval have been bombed to rubble.

Therefore, for the real estate sector to emerge stronger, healthier and poised for sustained growth, what is required is, as Surendra Hiranandani, Chairman & MD, House of Hiranandani aptly states, “Demonetisation accompanied by deregulation will produce great results.”