ABSTRACT

Black money gets generated in Real Estate sector due to unrealistic government guideline value and the facility for parties to privately meet and execute the contract. The present Closed Auction Market Structure is the main reason for lack of pricing information transparency and market liquidity in the Indian Real Estate sector. This paper attempts to change the existing market structure into Electronic Open Auction Market Structure, where all the transactions will be settled through a proposed single centralised intermediary i.e., Online Property Spot Exchange. The Model will create nexus between the parties to trade such as Buyers, Sellers, Investors & Hedgers, Banks, Appraisers, Legal advisers, Insurance Corporation, and the Government Agency. The real market value so discovered in the proposed exchange will be appended to the guideline value of the State Government on a daily basis. By this, black money and parallel economy gets eliminated in the process, while government would get increased revenue to its exchequer.

Keywords: Online Property Exchange, Black money in Real Estate, Real Estate Market Structure

Introduction:

In India, the market price for residential and commercial properties is increasing year after year due to increasing demand supported by developing economy and purchasing power. As several studies have indicated that investment in real estate will give increased returns compared to other investment vehicles, Indian investors are increasingly parking their money in real estate investments. As estimated by the Global Property Guide, the market value appreciated 33.91 per cent within last three years. As returns are lucrative, India has been voted as the fifth most preferred real estate destination in the world.

The other side of India’s real estate sector is grey as there is no transparency in the market. The Department of Revenue Intelligence (DRI) and other related vigilance agencies identified that the Real Estate is the birth place of Black money, a survey on corporate India by auditors KPMG found that, real estate and construction business is the most corruption prone sector in India. Based on the responses of 100 Indian and foreign multinational corporations, 32 per cent of respondents named real estate and construction as most prone to corruption. The reason is Indian real estate market still lacks pricing data transparency and market liquidity compared to more mature real estate markets like Australia & New Zealand. Hence, this paper proposes the Online Property Spot Exchange (OPSE), which will be Open Auction Market Structure facilitated by Computer Interactivate Mode.

I. Present System

For buying and selling of the properties in India, the following method is in practice. If someone wishes to sell the property, he/she obtains the market value of the property through mediators and friends. He/she also obtain the government guideline value through the document writers, Revenue officers and others sources. Then he/she starts identifying a suitable buyer who wishes to buy the property through a mediator or by himself and finally the sales gets concluded on a mutually agreed market value, which is normally over and above the guideline value. The present operating system of real estate’s transaction is graphically represented in figure #: 1.

Table # 1 gives a glimpse of the difference between the market value of the land and guideline value in terms of amount as well as in percentage. In practice, this difference between market value and guideline value gets transferred among buyer and seller in an unaccounted way. In general, the properties are registered at the registrar office at the guideline value or little bit above the guideline value. But the deal is settled by the real consideration (i.e. Practical Market Value). The difference is where the black money gets generated.
The Buyer accepts undervaluation (i.e. going by the guideline value for registration) of the property to avoid stamp duty. The stamp duty is a transaction tax, which is charged as a percentage of the transaction value of the property. Stamp duty on property is usually paid by the buyer. Hence, the buyer tries to pay less stamp duty to the government. Hence, they register the property at guideline value and thereby pay less tax as compared to the tax which he is supposed to pay if the property is registered at the market value. The seller also agrees for undervaluing the property on paper and accepts the difference in black money. Here the seller has an incentive to evade the taxation of capital gains. Using this black money ultimately the seller usually goes and buys another property which will also be undervalued. This cycle keeps continuing, adding to the black money in the economy.

Due to this kind of unethical illicit transaction, it becomes impossible to measure our real asset value of the nation. Without accurate measurement of the real asset growth, it is difficult to forecast the economic growth of the nation. It is also causing huge loss of tax-revenues to the government. The loss of government revenue affects our development plans and government investment in social welfare schemes. Such unaccounted money leads to all kinds of corruption and creates a dangerous parallel economy in India.

II. Proposed System

a) Entities required for OPSE Model:
   For the betterment and successful implementation of the online property spot exchange it is expected from the government to initiate the following entities,
   
   1. **Property Exchange & Regulatory Authority of India (PERAI)**, this will be an independent apex body for providing guidelines and regulatory framework for the OPSE, and the Indian properties market eco system.
   
   2. **Central Online Property Record Agency (COPRA)**, this will act as a Central Depository to maintain electronic copy of the property records. The particulars of the property can be linked to Aadhaar card; and the Unique Property Identification Number (UPIN), enabling each property owner to trace the features of the property through Global Positioning System (GPS).
   
   3. **Chartered Professional Association (CPA)**, this will act as the professional independent body consisting of legal experts and property value appraisers; they will verify the title of the property and estimate the property values and directly report the value & title of the properties to COPRA which intern will post the same into their official website based on provisional Property Identification Number (ProPIN) wise.

b) Underlying assumption for operating the OPSE Model:
   
   1. All the buyers and sellers must hold the aadhaar card with their bank account number incorporated in it.
   2. All the tradable / transferable property records must be converted from Physical form (i.e. Paper from) into De-Materialised (DEMAT) form (i.e. Electronic Data Form)
   3. All the property transaction must be traded / transferred through Online Property Spot Exchange alone. (i.e. complete abolition of physical property transfer)
   4. Model could be tested in one selected city in every state in the country.

c) Operational procedure in nutshell:
   The proposed OPSE Model will operate on the basis of open auction market structure, which is similar to spot electronic exchange for commodities, where there will be many buyers for every posted property, by which liquidity and fair price will be ensured. Trades in the proposed model will be executed through a single centralised intermediary OPSE, which will have nationwide registered brokers and sub brokers. It’s graphically represented in figure #: 2.
   
   1. Seller to handover the Property Documents to COPRA which act as a Depository.
   2. COPRA sends order to CPA for Verification and valuation.
   3. CPA sends the Valuation Report to COPRA, which will be treated as the basic value of the property
   4. COPRA sends the De-Materialisation intimation to seller.
   5. The Seller approaches the OPSE’s registered broker / sub brokers along with his expected sale value.
   6. Several buyers will also approach simultaneously the OPSE’s registered broker / sub brokers along with his expected sale purchases value.
   7. The rates quoted by seller will be posted online and buyer who ever is intended can also post his rates online and keep watching the development on online.
   8. The seller will wait till a target date and time and who ever quotes the highest rate over and above the rate quotes by the seller will clinch the deal.
9. After matching the deal, the data gets transferred to Exchange Clearing House (ECH) for Settlement.
10. ECH give the instruction to COPRA & Bank for transfer of ownership and money to the beneficiary.
11. ECH deducts the stamp duty from the process and transfers to the revenue department of the concerned state government.
12. The Regulators will get the information from the COPRA via Online Property Record Server (OPRS).
13. The latest settlement price of the property in a particular street in a city will be displayed as reference prices by the Revenue department in its official website.

d) Detailed operational Procedure for OPSE Model:

Once the OPSE is in place and if someone wants to sell his property, he / she should approach the COPRA for De-Materialisation of the property. The seller / buyer of property should possess the aadhaar card, which contains a 12 digit individual identification number issued by the Unique Identification Authority of India (UIDAI) on behalf of the Government of India. By feeding the aadhaar number into the OPRS, the COPRA will receive all required details relating to the title / ownership of the property and then assigns the ProPIN.

Based on the Pro PIN, the property details are transferred to CPA. The CPA’s are legal experts who verify the title of ownership of property. When it’s clear, then the CPA’s property appraisers are directed to evaluate the property. The property values are calculated on the basis of several factors like Nature of Title, Nature of land, Size of the property, Floor-Space Index, Shape of the property, Availability of amenities, Distance From Conveniences and Polluting Units etc.

All the property related information along with their declaration will be reported electronically to COPRA and the same will be posted in their official website on the basis of Pro PIN wise. Later COPRA assigns the UPIN to the properties. This will integrate with their Online Land Record Server (OLRS) on the basis of aadhaar number. Then it helps to easily trace property via GPS.

After receiving the UPIN for the property, the seller can approach the OPSE’s or its approved mediators for selling their property. They must mention their aadhaar number and their UPIN in the Property Sale offer Document (PSOD). Similarly, if the person wants to buy the property they approach the Online Property Exchanges (OPX) or its approved mediators. The buyer of the property is also required to mention their aadhaar number in the Property Bid Document (PBD).

The OPSE is an electronic market for exchange of property, through this platform the buyer and seller of the property exchange their goods (i.e. Property) and consideration (i.e. Cash) through the middleman (i.e. Online Exchange). Since online transactions are routed through the exchange, which is a middle man, there is no necessity to know the identity of the buyer to seller and vice versa. This is a guarantee offered by the exchange to the seller and buyer for their considerations.

When the sellers bid price and buyers asked price gets matched, transaction will come to an end. Then the details of the transaction get electronically transferred to the settlement process. The settlement process is done by the ECH, the ECH verifies the transactions and passes order to the COPRA and to the bank to transfer the ownership of the property and settlement of purchase consideration to the beneficiaries.

The regulatory agency of the system as well as the government agency can easily assess the OPRS maintained by COPRA. As per the requirement of the regulatory authority; the plenty of Decision Information System (DIS) Reports of the Property records can be obtained from the system whenever it is required.

e) Benefits derived from the OPSE:

The society derives numerous benefits from Online Property Spot Exchange; few of them are hereunder,

1. Platform for Pure Competition & Informational Efficiency: The online exchange is interconnected by a network of the approved mediators. This will bring more buyers and seller into the market. It is an online live market where all the market participants can watch the real time market movement, and they can take buy / sell decisions based on the market behaviour. The price and non-price information are captured from the exchange and can be published through official websites as well as in the leading televisions, daily newspapers and ticker boards. Ultimately, this will help in arriving at a market price which is purely determined by the supply and demand factors of the property.

2. Market liquidity & Price Discovery: The online markets rely on EDI. It’s one of the fastest as well as the safest data interchange mechanism made possible by the Information Technology (IT). This Information Technology Enabled Services (ITES) platform brings together a lot of market players to the market contributing to the market liquidity and price discovery. It’s a virtual place where the buyers and sellers meet. A seller of the property could find many buyers for their property via online exchange. Hence, the market brings more liquidity for this asset class. The exchange facilitates sellers (i.e. bidders) and buyers (i.e. askers) to quote prices based on their acquired information as well as
the demand and supply forces of the property. The price information is spared throughout the nation through this network which results in a high possibility of efficient price discovery to the Indian property market.

3. **Preventing Black Money Transactions**: OPSE is a virtual market which is expected to abolish the black money transactions. Here all the transactions are routed through the online exchange which acts as a middleman. The exchange offers the guarantee to the seller and buyer for the settlement of the deal. This avoids physical connection between the parties. Hence, the buyer doesn’t know who the seller is and vice versa. Therefore, the payment for the transactions must be routed through bank alone. This system prevents black money being parked into the real estate industry.

**Guideline Value**

Guideline value is an indicator of the market value of properties. It gives the government’s assessment of the value of a property while evaluating its stamp duty and registration charges.

Guideline values were last revised in August 2007, and the previous revision was in March 2003. Tamil Nadu is among a very few states that do not revise guideline values periodically; Most states revise it annually, said a senior official in the registration department.

**Table # : 1 - Govt. Guideline Values and Market rates on Undeveloped Land in CHENNAI**

<table>
<thead>
<tr>
<th>Areas in Chennai</th>
<th>Guideline Value R / Sq.ft</th>
<th>Market Value R / Sq.ft</th>
<th>Diff. from Guideline Value R / Sq.ft</th>
<th>% of Diff. in Guideline Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RESIDENTIAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ashok Nagar</td>
<td>4,220</td>
<td>7,291</td>
<td>3,071</td>
<td>72.77</td>
</tr>
<tr>
<td>Besant Nagar</td>
<td>9,363</td>
<td>16,666</td>
<td>7,303</td>
<td>78.00</td>
</tr>
<tr>
<td>Boat Cub Road</td>
<td>16,690</td>
<td>29,166</td>
<td>12,476</td>
<td>74.75</td>
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<tr>
<td>Greenways Road</td>
<td>5,600</td>
<td>14,583</td>
<td>8,983</td>
<td>160.41</td>
</tr>
<tr>
<td>Indira Nagar</td>
<td>5,500</td>
<td>11,458</td>
<td>5,958</td>
<td>108.33</td>
</tr>
<tr>
<td>Kilpauk</td>
<td>6,580</td>
<td>12,500</td>
<td>5,920</td>
<td>89.97</td>
</tr>
<tr>
<td>MRC Nagar</td>
<td>8,253</td>
<td>14,583</td>
<td>6,330</td>
<td>76.70</td>
</tr>
<tr>
<td>Velachery</td>
<td>3,968</td>
<td>7,291</td>
<td>3,323</td>
<td>83.74</td>
</tr>
<tr>
<td><strong>COMMERCIAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anna Salai</td>
<td>10,500</td>
<td>16,666</td>
<td>6,166</td>
<td>58.72</td>
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<tr>
<td>LB Road, Adyar</td>
<td>4,257</td>
<td>12,500</td>
<td>8,243</td>
<td>193.63</td>
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<tr>
<td>Poonamallee Road</td>
<td>8,880</td>
<td>16,666</td>
<td>7,786</td>
<td>87.68</td>
</tr>
<tr>
<td>RadhakrishnanS alai</td>
<td>8,000</td>
<td>16,666</td>
<td>8,666</td>
<td>108.33</td>
</tr>
<tr>
<td>TTK Road</td>
<td>8,210</td>
<td>16,666</td>
<td>8,456</td>
<td>103.00</td>
</tr>
</tbody>
</table>

**Chart #: 1: NHB RESIDEX CITY WISE (2007 – 2011)**
Figure #1 - A Present Real Estate Transaction

Figure #2 - A Proposed Online Exchange Based Real Estate Transaction

- **Theoretical Market Value (TMV)**: Calculation made as per the Ready Reckoner for Guideline Value for Property Valuation
- **Practical Market Value (PMV)**: Actual amount of consideration transfer from buyer to seller

Mediators Workout
Theoretical & Practical Market Value

Difference between the TMV & PMV is transfer by Cash (i.e. Black Money)

Theoretical Market Value (Guideline Value) alone transfer through the Registration office via approved route (i.e. Banking channel)
Conclusion:

An efficient, strong and ‘REAL’ Indian real estate market can emerge only if there is liquidity and informational transparency in the market. To facilitate this, we attempt to create a structural change by bringing in information transparency and liquidity in the market. Under the proposed Open Auction Market Structure where trades are executed through a single centralised intermediary (i.e. OPSE Model), contracts will be designed with the relevant stake holders such as Buyers, Sellers, Investors & Hedgers, Banks, Appraisers, Legal advisers and the Government Agency. The real market value so discovered in the proposed exchange needs to get appended to the guideline value of the State Government on a daily basis. By this, black money and parallel economy gets eliminated in the process, while government getting increased revenue to its exchequer.

References: