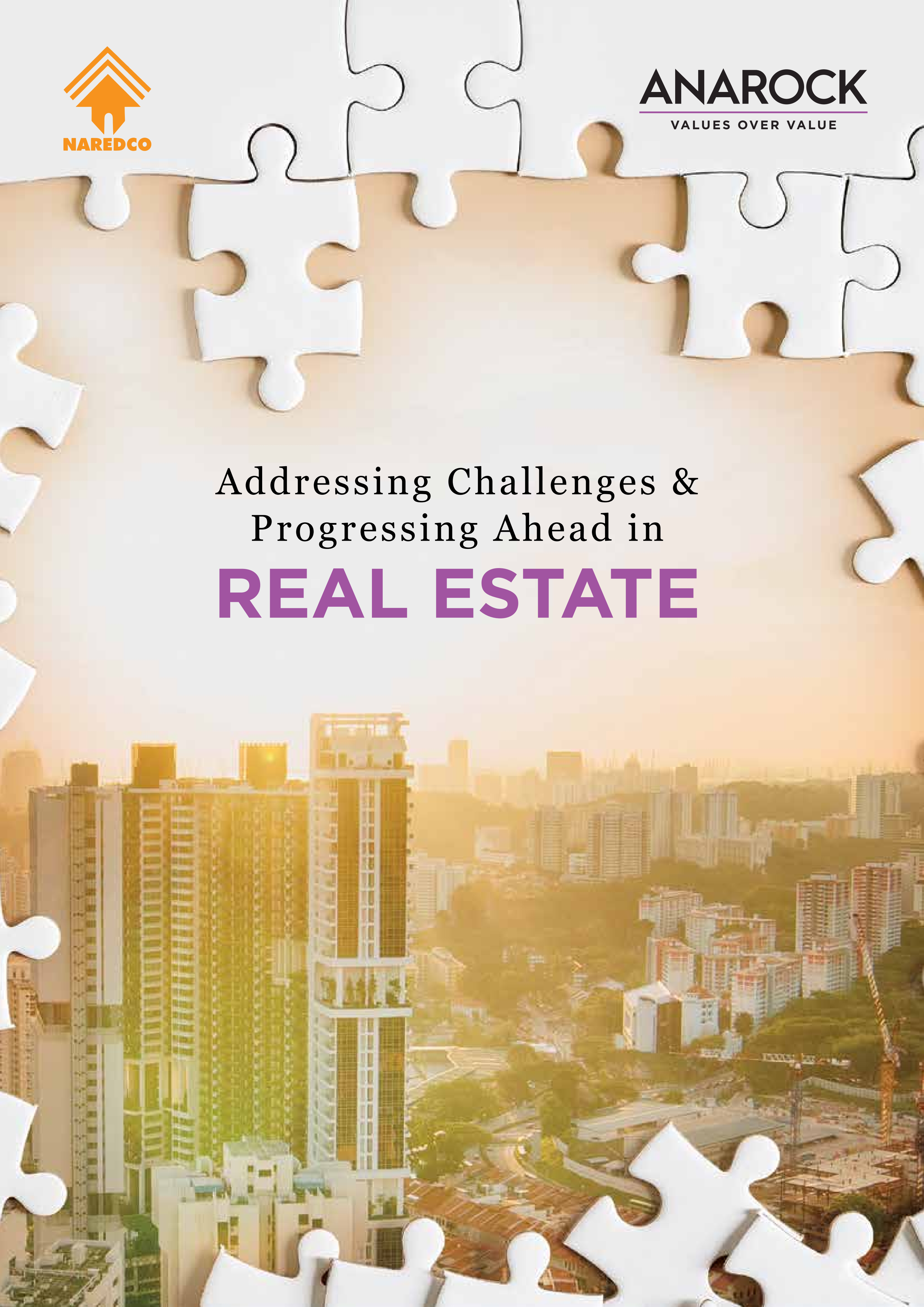
NAREDCO

ANAROCK
VALUES OVER VALUE

Addressing Challenges & Progressing Ahead in REAL ESTATE



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Foreword

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Group Chairman

With the automobile and FMCG sectors moving on slow gear since a year now, India's economic health is in a tizzy. The country's GDP growth rate also fell to 5% in Q1 2019-20 - the slowest pace in the last six years. Besides low macroeconomic indicators, negative sentiments have been floating across the country and real estate was no exception to that. Although launches and sales decreased by 36% and 30% respectively in the third quarter of 2019 compared to Q3 2018 sales to launches ratio was greater than one, sign of a good indicator in troubled times.

For Indian residential real estate, slow growth rate of the Indian economy is not the only reason for the tough time faced. There is a canker created by the sector itself. Struggling with liquidity crisis amidst low consumer demand, project construction took a massive hit with residential sector across top 7 cities piling on to massive 5.75 Lakh stalled/delayed units. With banks also literally freezing funds to developers owing to rising NPAs, developers knocked on the NBFCs to avail funds and thus complete their projects. However, this alternate source of funding has also been compromised post the IL&FS fiasco. Thus, in the absence of adequate funds and prevailing lower buyer sentiments, the sector witnessed major consolidation. As per ANAROCK's research, consolidation over the last few years has wiped out not just fly-by-night developers from the market but also few genuine yet cash-starved players.

Taking a heads-on approach to address key issues and support major sectors - including real estate - the government has rolled out a series of measures to beat the odds. From imposing ban on subvention schemes to protect homebuyers' interests to initiating draft Model Tenancy Act, 2019 or even easing FDI norms in retail sector, the government is on a roll. Above all, by creating a special window of ₹20,000 crore for last-mile funding of unfinished affordable and mid-segment homes, it has given perfect festive gift to lakhs of homebuyers who were anxiously waiting for their prized possession. The announcement may not significantly hike sales but instead will boost positive consumer sentiments.

That said, the stark visible impact of all these announcements is still a few quarters away.

Meanwhile, the RBI is also playing its part by announcing a cut in the repo rate for the fifth consecutive time this calendar year to trigger demand including housing. Other than this, subsidies and tax benefits have also played a major role in promoting affordable housing across the country. As a result, the share of affordable houses (<₹40 Lakh) in new launches increased to 40% in 2019 from 35% in 2013.

In a nutshell, the government is taking the necessary steps to boost demand and usher in transparency in the sector. But the sector is still grappling with several challenges that need to be addressed. As one of the plausible ways to fight liquidity crisis, the government may provide industry status to overall real estate that allows easy access to funds at competitive rates. Additionally, banks should be allowed to do land funding and additional FSI be provided to developers who are willing to execute stuck/delayed projects.

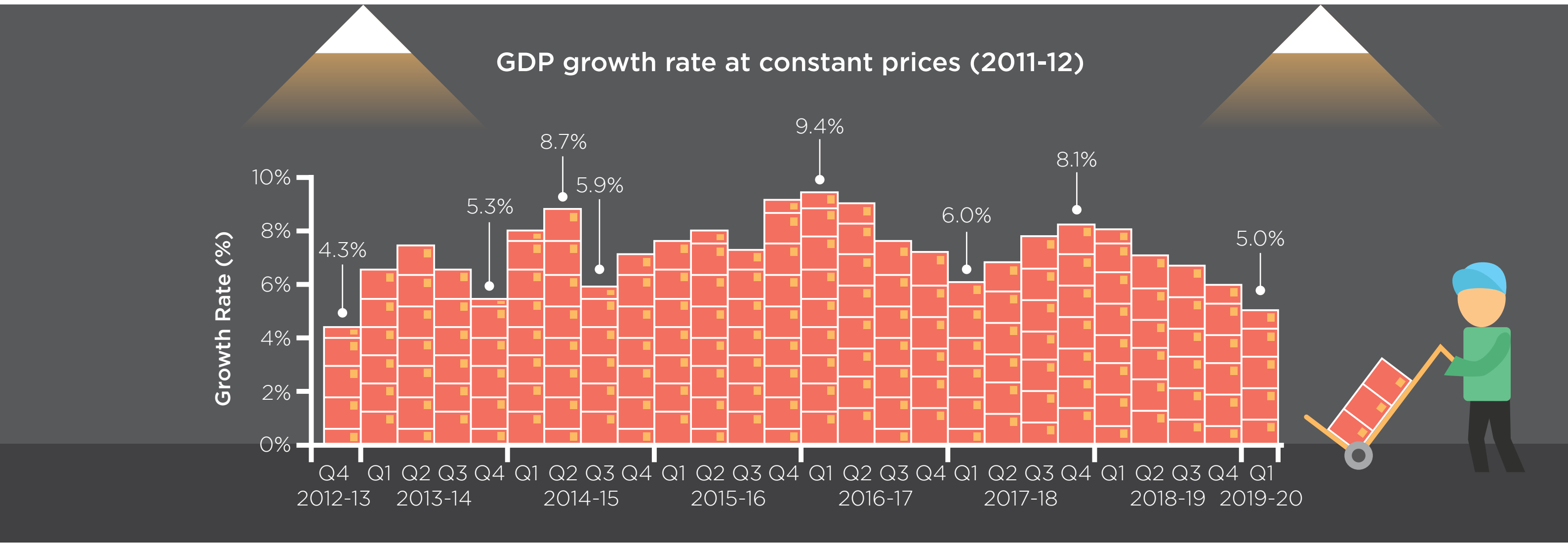
1

India Macro Economic Snapshot

Facing cyclical and structural headwinds; albeit the long-term growth looks secure

Gross Domestic Product

- GDP continues to expand at the rate of 5%[1]
  - » It peaked at 9.4% in Q1 2016-17. With the nation aspiring to be a US$ 5 trillion economy by 2025, there's a dire need for the GDP growth rate to make a comeback in the future

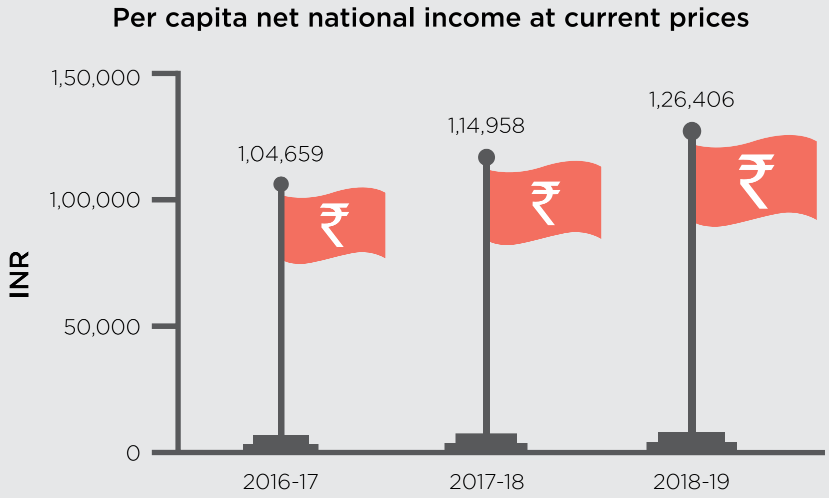


India's GDP is growing at the rate of 5% which slowed down gradually since Q4 2017-18. This significant reduction in GDP is majorly because of the slowdown in the manufacturing industry in the past year. The growth rate for manufacturing industry came down to 0.6% from 12.1% in last one year, as per the RBI data.

GDP growth rate was the lowest in Q4 2012-13 at 4.3% and peaked in Q1 2016-17 to 9.4%. As the trend shows, GDP growth rate is at its lowest in the last 6 years and expected to increase further with the recent fiscal stimulus, provided by the government, of approximately ₹90,000 crore.

Per Capita Net National Income

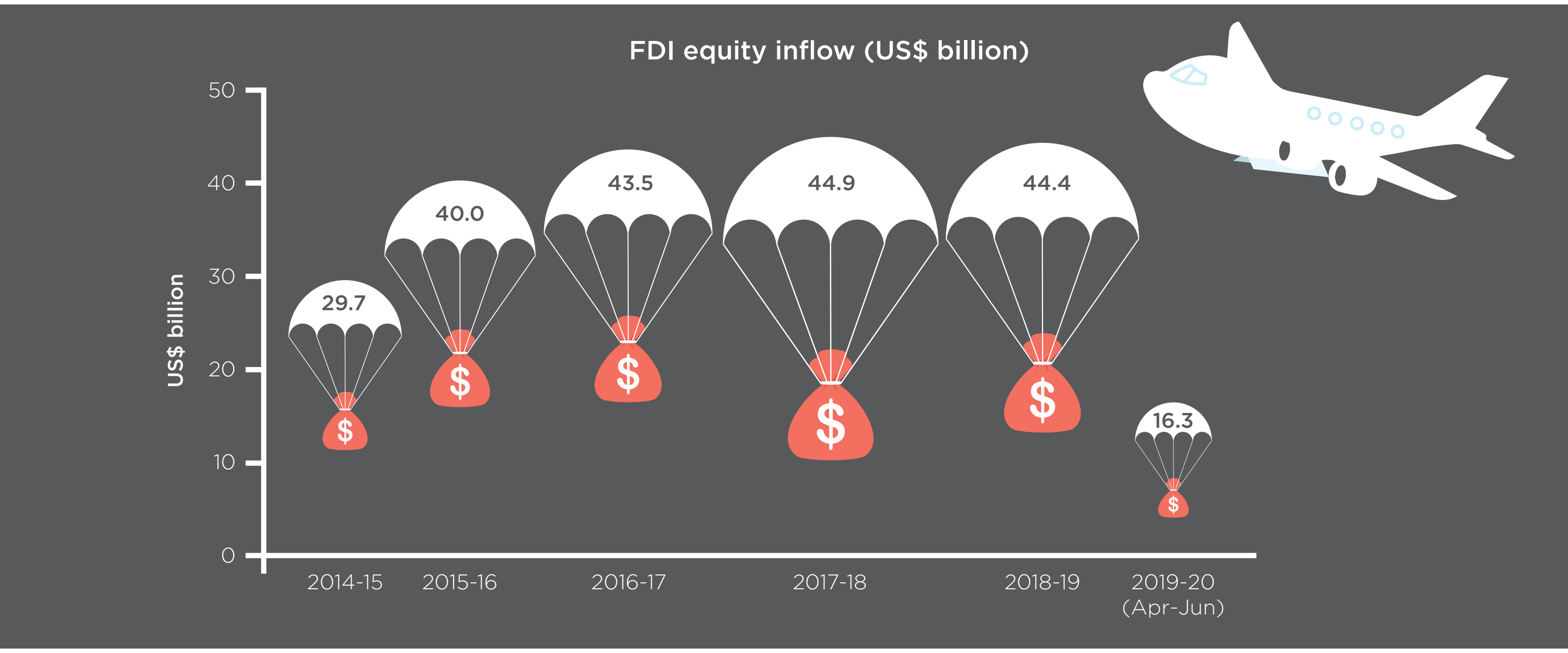
- Per Capita Net National Income increased to ₹126,406[2]
  - » The per capita income has increased by 10% in 2018-19 as compared to the previous year indicating the robust intrinsic health of the economy.



[1] Ministry of Statistics and Programme Implementation; data for Q1 2019-20
[2] Ministry of Statistics and Programme Implementation; data for 2018-19

Foreign Direct Investment

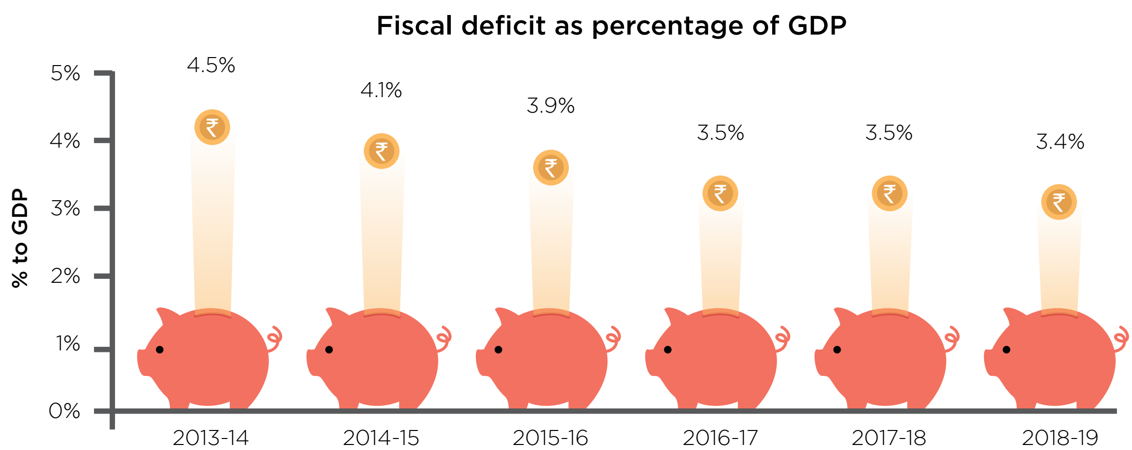
- India witnessed cumulative FDI Equity Inflows of US$ 436.35 billion from April 2000 to June 2019[3]
  - » With business-friendly policies being introduced by the current Government, we may witness renewed interest from global investors in the future quarters



Foreign direct equity investments of US$ 44.4 billion in 2018-19 were recorded which is at par with the previous years. This may be attributed to India's improved rank of Ease of Doing Business for the third consecutive time in 2019, reaching at 63rd position.

Fiscal Deficit

- Gross Fiscal Deficit reduced to 3.4% of GDP[4]
  - » As compared to 4.5% in 2013-14; reduction is a healthy indicator
    - This leaves room for the government to spend more on developmental activities and reinforce the growth path

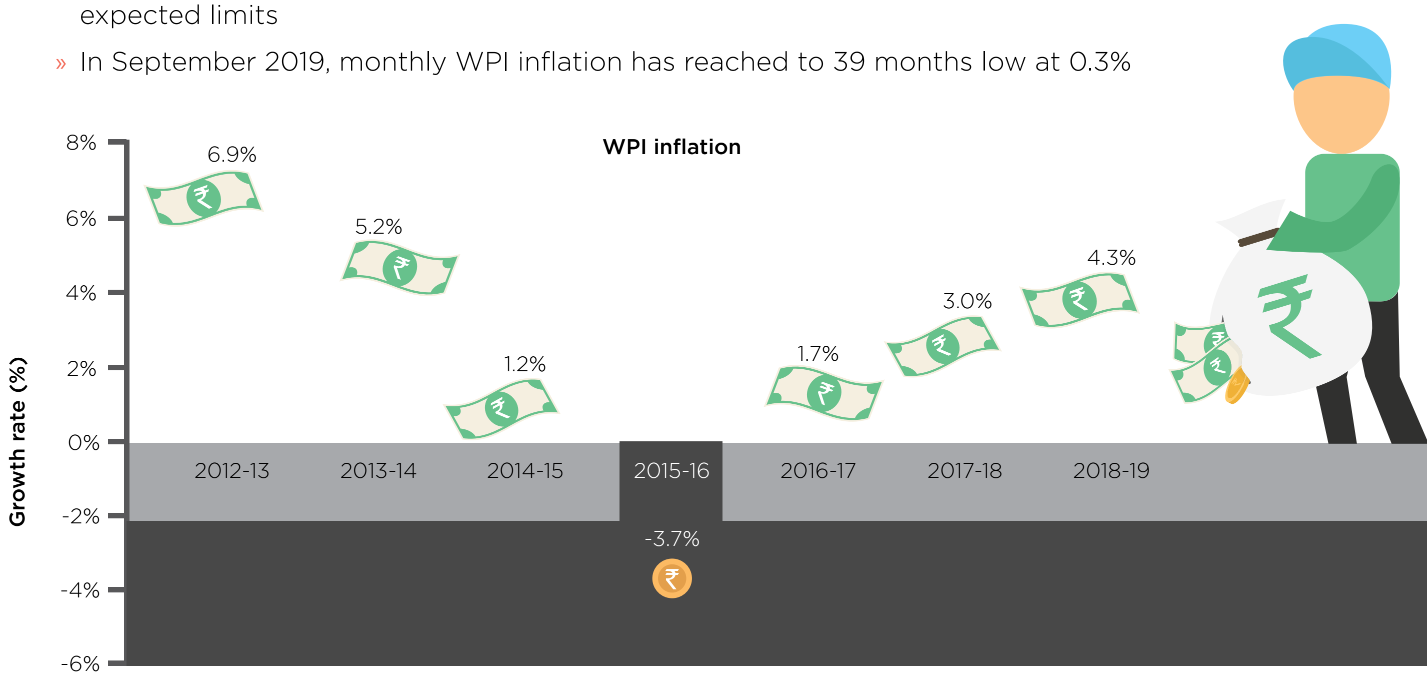


This reduction in the fiscal deficit has been possible due to increased tax collection and reduced spending on the subsidies.

[3] Department for Promotion of Industry and Internal Trade
[4] Economic Survey 2018-19; Revised estimates for 2018-19

Inflation

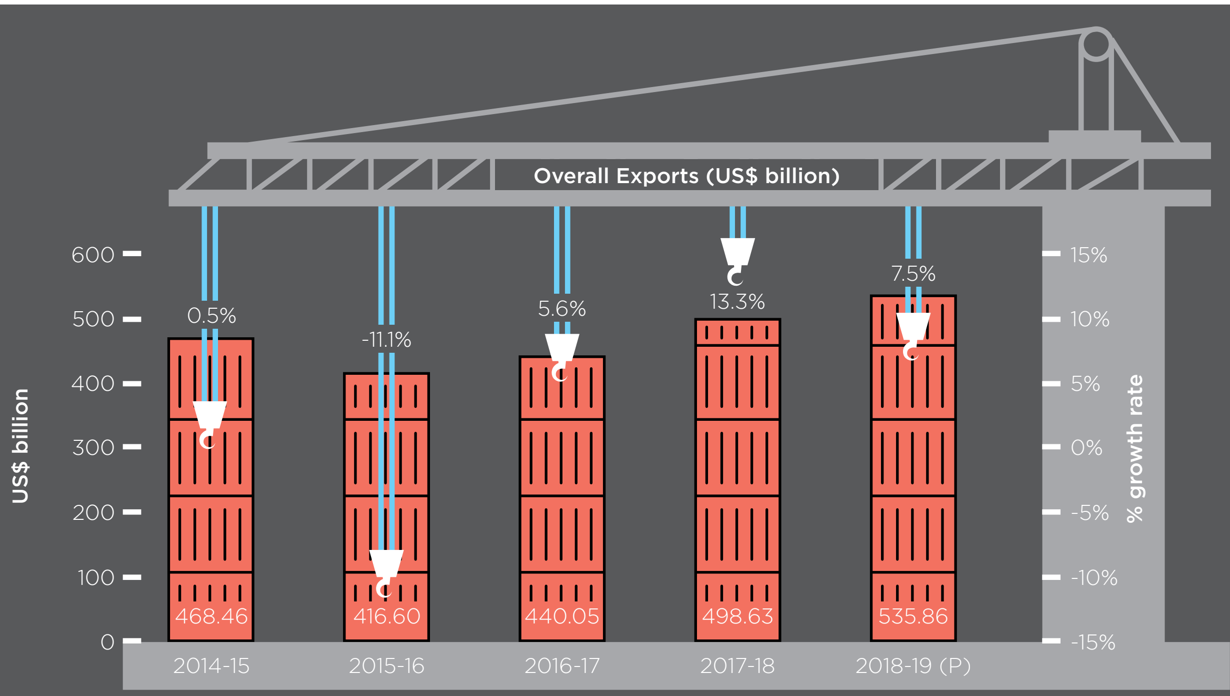
- Annual WPI Inflation reached 4.3%[5]
  - » Increased from -3.7% in 2015-16 owing to a significant increase in the prices of crude petroleum, fuel & power and manufactured products, However, it is still within the expected limits
  - » In September 2019, monthly WPI inflation has reached to 39 months low at 0.3%



Exports

- India exported merchandise and services worth of US$ 535.86 billion in 2018-19[6]

The growth rate of exports (merchandise and services) reduced to 7.5% in 2018-19 as compared to the previous year. On the other hand, imports witnessed a growth of 8.5% year-on-year in 2018-19. Imports stood at US$ 631.29 billion in 2018-19, exceeding the exports of US$ 535.86 billion in the same year leading to a trade deficit of around US$ 95.43 billion.



[5] Economic Survey 2018-19; Data for 2018-19
[6] Press Information Bureau; Provisional Data

Strengths of the economy

7% ANNUAL GROWTH
Foreign Exchange Reserves

US$ 428.6 BILLION
(AUGUST 30, 2019)[7]

99 CITIES SELECTED FOR
Smart Cities Mission[8]

WITH PROPOSED INVESTMENT
OF ₹201,981 CRORE

FROM → TO

77th rank in 2018
63rd in 2019[9]

EASE OF DOING BUSINESS

₹100 Lakh Crore

ALLOTTED FOR
INFRASTRUCTURE
IN NEXT 5 YEARS[10]

₹80,250 Crore

ALLOTED TO CONSTRUCT
1.25 LAKH KM OF RURAL
ROADS

MAKE IN INDIA INITIATIVE

Automobile
Aviation
Construction
Defence
IT & BPM
Media & Entertainment
Mining
Oil & Gas
Railways
Roads & Highways
Textiles
Garments

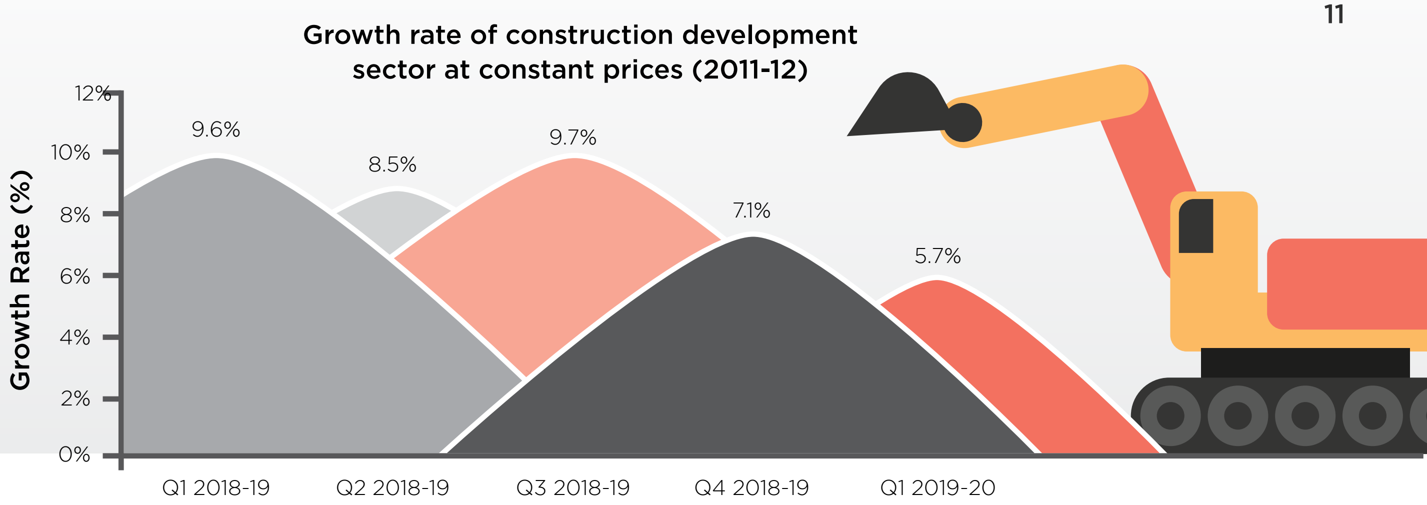
[7] Reserve Bank of India
[8] Ministry of Housing and Urban Affairs
[9] World Bank; Ranking for 2019
[10] Press Information Bureau; Union Budget 2019-20

This slowdown is likely to be arrested as the government has acted and taken cognizance of the situation and the recent stimulus of approximately ₹90,000 crore is likely to be a boon to the economy. The government also allocated ₹100 Lakh crore for infrastructure in Union Budget 2019-20 to be deployed over the next five years. With so many initiatives on the anvil, the International Monetary Fund (IMF) expects India's GDP to grow by 6.1% in 2019.

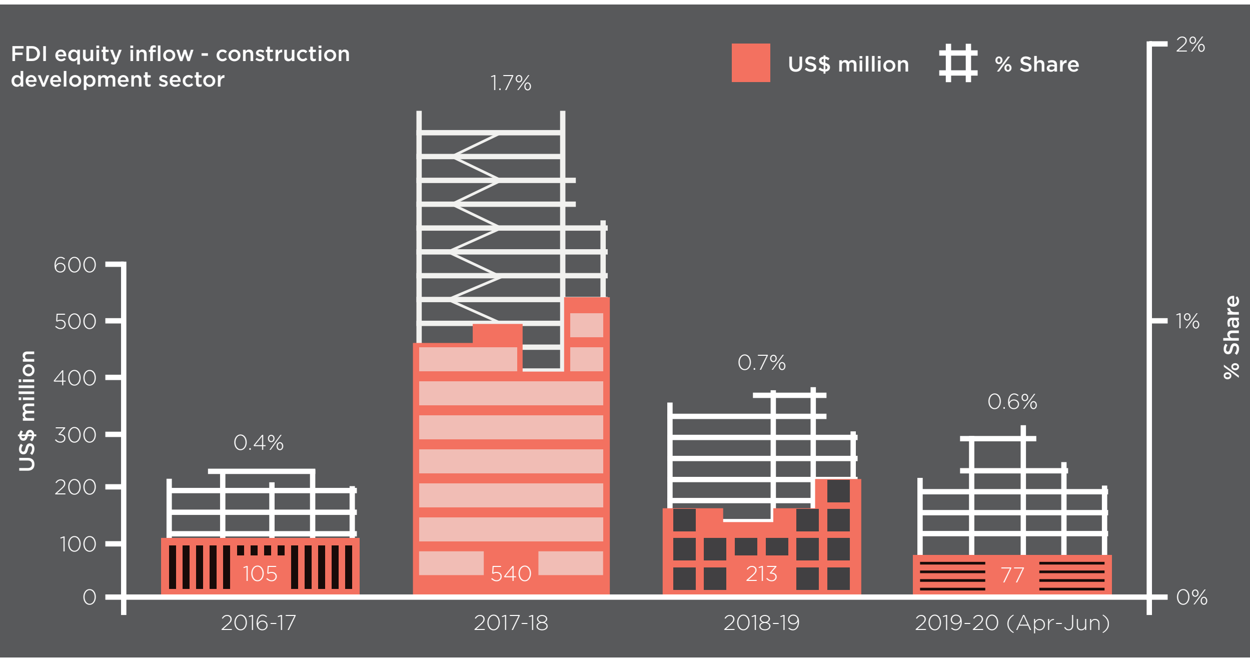
2

Overview of Construction Development Sector

Massive infrastructure and real estate requirements keep the sector vibrant



- The Indian construction development sector grew at the rate of 5.7% in Q1 2019-20[11]
- The Indian construction development sector is the 2nd largest FDI recipient and employs 44 million people[12]
  - This sector received a total of US$ 25.1 billion FDI inflows during the period of April 2000 to June 2019 which accounts for 6% of the total FDI inflows
- Indian construction development sector contributed 9% to India's GDP[13]



The construction development sector of the Indian economy comprises three segments including real estate construction, infrastructure, and industrial construction. India's construction development industry's growth rate declined from 9.6% to 5.7% in the last year. The total FDI inflows in a construction development sector (townships, housing, built-up infrastructure), also reduced to US$ 213 million in 2018-19 from US$ 540 million 2017-18. The share of construction development sector in FDI equity inflows has also reduced to 0.7% in 2018-19 from 1.7% in 2017-18. This reduction may be attributed to the impending tax structure on FDI investments, lack of confidence due to insolvency proceedings faced by many developers and severe delays in project executions. However, major infrastructure financing is being done by the government due to low fiscal deficit and reduced expenditure on subsidies. The government's intervention to reform the sector through structural changes is likely to improve investor sentiments in coming years.

11 Ministry of Statistics and Programme Implementation; data for Q1 2019-20

12 investindia.gov.in

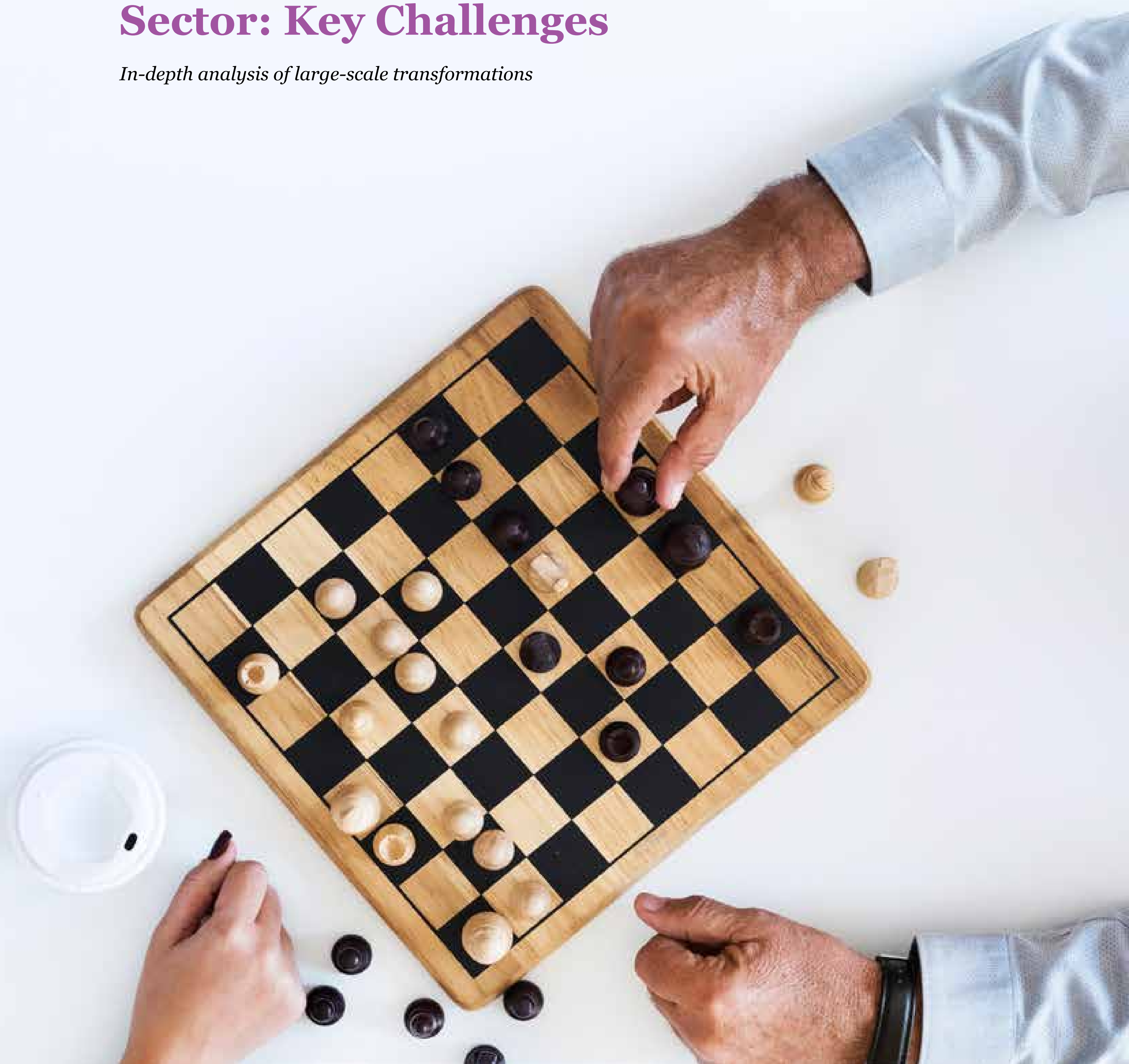
13 investindia.gov.in

Although, the FDI equity inflow in the construction development sector reduced significantly, but the sector continues to grow at the rate of 5.7%. The government has a vision to bridge the urban-rural divide and has allocated ₹100 Lakh crore in the maiden budget of the present government. This may chart the growth path for the future. However, the real estate sector warrants some attention to ease their impediments.

3

Indian Real Estate Sector: Key Challenges

In-depth analysis of large-scale transformations

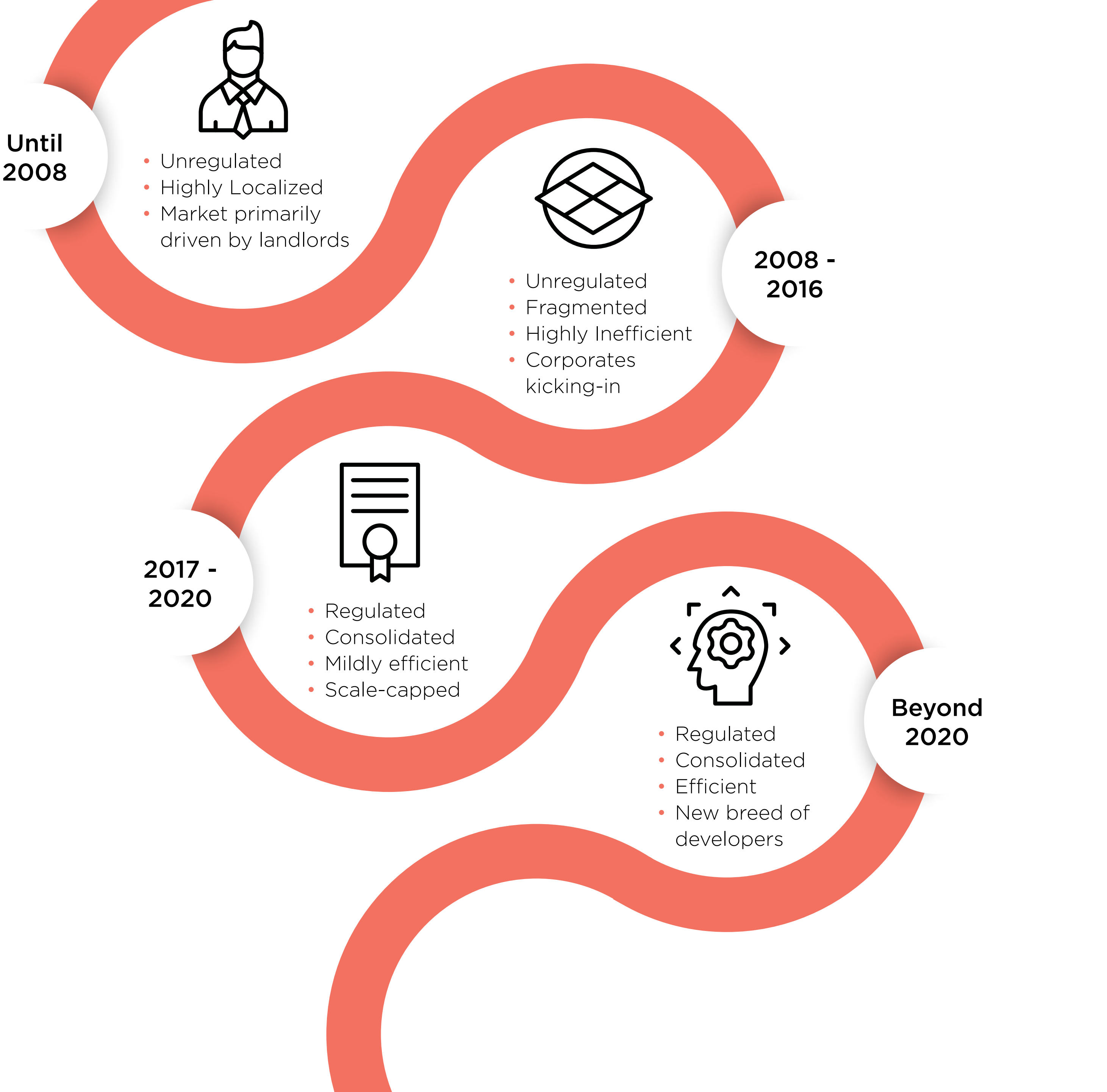


The biggest challenge faced by the Indian real estate sector today is the availability of funds and the receipt of timely approvals from the governing authorities. While many states have encouraged the single window clearance mechanisms for many industrial projects, real estate developments are still battling with the approval issues.

The challenges for commercial real estate are less compared to the residential segment. This is mainly due to the size of the segments where the value of under-construction projects in the residential segment accounted for nearly 84% compared to 16% in case of commercial. Owing to the high demand for office spaces in the country and the country's success in its maiden REIT, there is a rise in investor activity in the commercial segment.

The residential segment, however, is still reeling under pressure of low sales volume, high unsold inventory, stagnant prices, and delayed execution. All these are adversely affecting the profitability and viability of the projects. As is, developers were already reeling under the short-term impacts of major policy overhauls such as the IBC, RERA, and GST.

The Transition of Indian Real Estate Sector



The Indian real estate sector's transition over a period of time has been both gradual and interesting. Post the economic liberalization in 1991, the consumer markets in the country changed rapidly. The new IT-ITeS sector driving the economy, the influx of several international brands and the increased participation along with exposure to global markets catalyzed the demand and transformed the preferences of the residents. The real estate sector also transformed due to the increased participation of several private developers, both domestic and foreign.

A time-series analysis indicates four major periods for the evolution and transformation of the Indian real estate sector. The initial period until 2008, was an unregulated one and the developers were largely family-owned business owners who acted purely on their own judgement and assessment of the market. The authorities were only seen to allocate land and issue licenses and approvals. There was lack of any government policies or regulations to monitor the sector. The developments were mainly localized and were targeted at limited buyers and prospects. There was almost zero thought or effort to understand the needs or market demand. It was then essentially a market-driven by landlords who were seen to be influencing and governing the business without any relevant skills or expertise. A significant proportion of incorrect products were developed during this period.

The period post-2008 until 2016 witnessed the entry of many corporate houses into the real estate sector. This was indeed a golden period and the market was hoping to get some good practices, introduction of corporate governance and revamping of the entire business. However, the sector continued to be un-regulated, fragmented and highly inefficient. Despite the challenges, many global and domestic investors forayed into the Indian real estate space. This was mainly driven by the attractive returns that the sector gave due to rapid price movements amidst a high demand. Though the market was growing swiftly there were some inherent flaws that were overlooked. The supply that was being created was without any estimation of the demand. The product being developed was too aspirational.

Valuations of the developers also depended largely on their land banks and project launches. Thus, to achieve better valuations, many developers were seen to divest their cash flows meant for executing projects to acquire land banks and launch new projects. This practice snowballed into a practice of financial irregularities and fiscal indiscipline.

This had caused several projects to be delayed and buyers were seen to be losing confidence in the sector. The high infusion of supply by this time had also started to cool off the demand causing prices to stabilize and investors to look for exits. The end users now had significant options and were evaluating the projects based on their needs and affordability. The market which was dominated by the seller was gradually changing its course to favour the buyers.

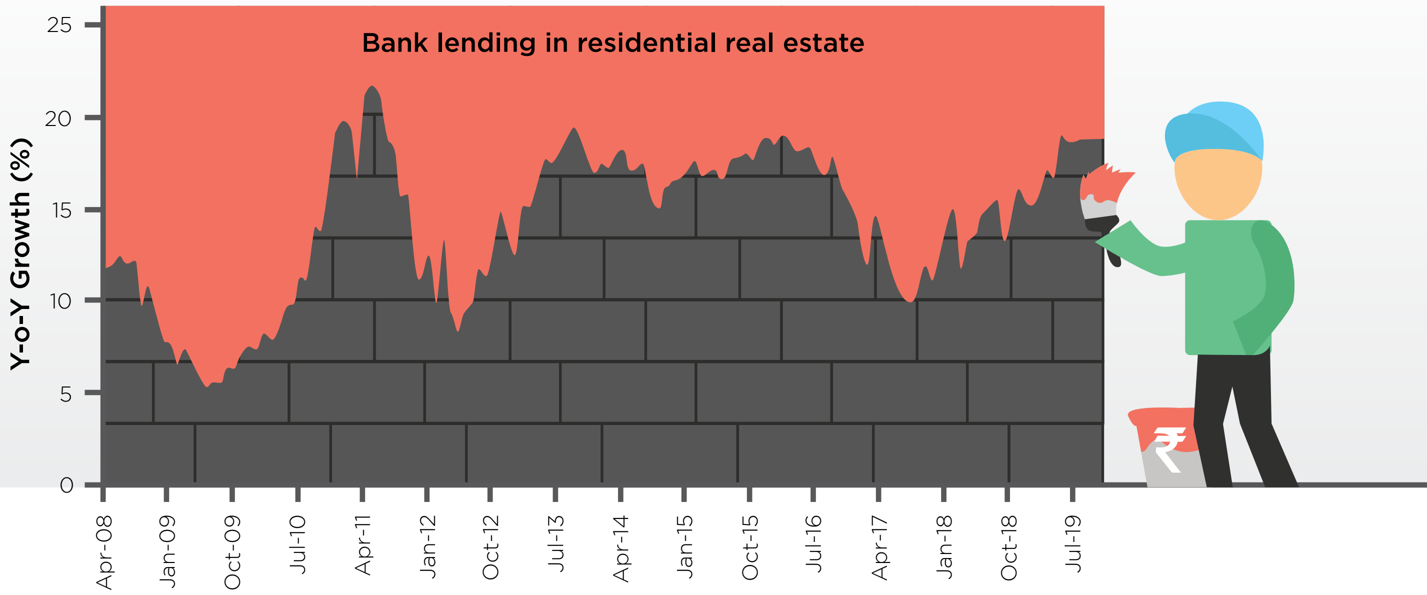
The next phase - 2017 onwards till date - witnessed the introduction of several reforms and like GST, RERA, IBC, and others. These regulations were introduced and implemented to protect the interest of the buyers and bring impart a level-playing field to all the developers. Despite some resistance during the initial days of the reforms, we notice that the changes are beginning to show green shoots of acceptance, making the sector mildly efficient. Today we see that all projects are launched with RERA registration numbers and are seen to comply with the prevailing guidelines. A lot of consolidation among builders is also seen which will help the sector to perform in an efficient manner.

While this is just the beginning of a new era in the history of Indian real estate, we are confident that the future, beyond 2020 will have an industry that is transparent, regulated, consolidated and operated by a new breed of developers.

Lack of Funds

The recent announcement by the government on the ban on subvention schemes has made the situation worse for many developers. The sector has been facing funding challenges for the last several years. While the banks reduced their lending to residential real estate projects significantly after 2011, developers were forced to turn to NBFCs and gradually increased their dependency on them.

The demonetization drive in 2016 was another big blow to the sector which was heavily driven by cash transactions. The sector was already dealing with low sales volumes and high cost of capital since the last few years, due to which the developers were operating on thin margins. The growth rate of banks' lending to the residential real estate sector was the lowest in August 2017 at 9.75%. Since then, it has improved, though inconsistently, to 18.65% in July 2019. This staggered growth may offer some respite to the sector to combat the present liquidity crisis.

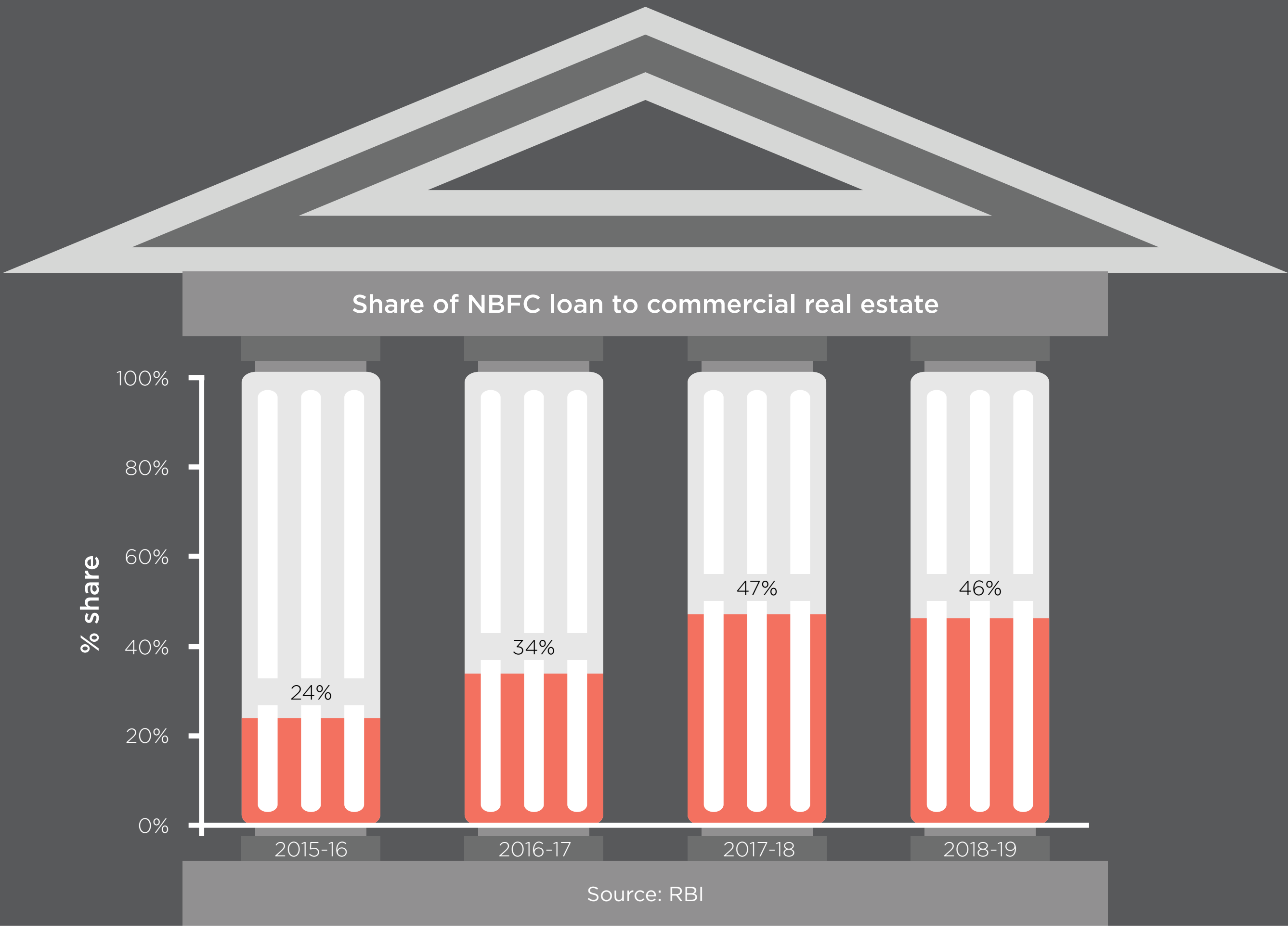


Source: RBI

Over Dependency on NBFCs/HFCs

With banks shying away from lending to the real estate sector, the non-banking finance companies (NBFCs) emerged as the best alternative and began to provide funds to the real estate sector. The share of NBFC loan to real estate increased to 46% in 2018-19 from 24% in 2015-16, as per the RBI. This significant increase in the share was expected to help the sector combat liquidity crunch. However, the situation has changed. NBFCs are now modelled to raise funds and lend in short-term. On the other hand, the real estate is a long gestation business.

Simultaneously, when Infrastructure Leasing & Finance Services (IL&FS) defaulted in payment obligations of bank loans (including interest) and failed to meet the commercial paper redemption obligations due in September 2018, RBI asked NBFCs to bring down their exposure to real estate sector. As a result, the share of NBFC loan to real estate plunged to 46% in 2018-19 from 47% in 2017-18. This adversely affected the fund flows to the real estate developers as NBFCs were major source of funds for them.



Massive Under-construction, Delayed and Stalled Projects

The liquidity crisis adversely affected the construction schedule of the projects. This resulted in a decade long delay in possession. According to ANAROCK Research, approximately 220 projects with 1.74 Lakh homes, which were launched in 2013 or earlier, are stalled in the top 7 cities due to funding issues or some litigations. The total value of these projects is estimated to be more than ₹1.77 Lakh crore. Almost 66% of these stalled units have been sold, which are valued at approximately ₹1.11 Lakh crore.

The present scenario of piling unsold inventory across the major cities is also a concern. MMR has 2.2 Lakh of unsold inventory as of September 2019 which will take approximately 42 months to clear whereas NCR has 1.8 Lakh of unsold stock with an inventory overhang of 44 months. As of September 2019, the top seven cities of India have nearly 6.56 Lakh unsold stock with an inventory overhang of 2.5 years. Nearly 64% of the unsold inventory piled up in top seven cities of India are in the budget segment of more than ₹40 Lakh. This is because majority of the launches prior to 2013 were in high-end and luxury segment, which resulted in oversupply in these segments.

Presently, the government's constant push for affordable housing shifted the focus from high-end and luxury segments to the affordable segment.

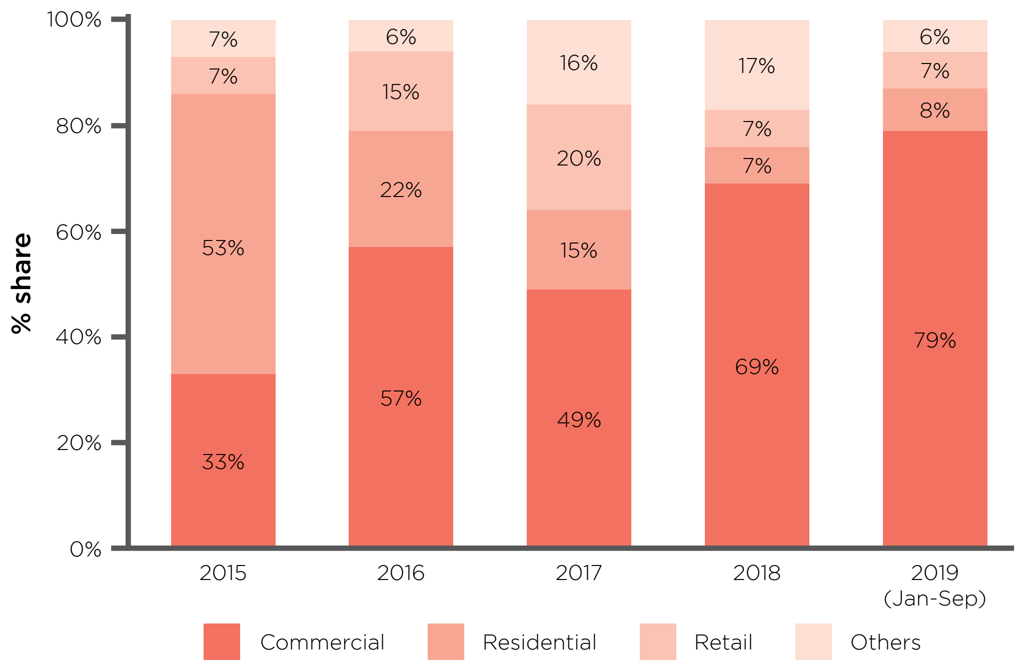
Residential Projects do not Interest PE Players

Delayed projects, lower margins, and defaults caused private equity investors to lose confidence in the residential real estate sector. As a result, the sector saw a sharp decline in the share of private equity investments since 2015.

On the contrary, the share of commercial real estate in private equity investments has grown exponentially. The share of commercial real estate in private equity investments increased to 79% in 2019 (Jan–Sep) from 33% in 2015 owing to the rising demand for Grade A office space amidst increasing occupancy levels. The success of first Real Estate Investment Trust (REIT), Embassy Office Parks, has further catapulted the interest of the investors in the segment. RMZ Corp, K Raheja Corp, Godrej Properties, Panchshil, Lodha are expected to monetize their commercial assets through REIT.

On the other hand, the share of residential real estate sector in the private equity investments shrank to 8% in 2019 (Jan-Sep) from 53% in 2015. However, the sector received US$ 295 million funding this year as against US$ 210 million last year, thus seeing nearly 40% yearly gain. Demonetization and the NBFC crisis significantly reduced the fund flows to the sector. In the absence of steady fund flows and reduced sales, many developers are facing charges in the National Company Law Tribunal and battling to prevent insolvency. This has majorly deterred institutional and private equity investors to move away from residential developments.

Break-up of investments by asset class (2019)



Source: ANAROCK Research

Structural Reforms and Policy Changes Cast an Uncertainty

Changing norms and regulations worked as a catalyst to subdue demand in the residential sector. Since 2016, the sector is struck by the triple tsunami – RERA, Demonetization, and GST which decreased the new supply significantly across the country. On the other hand, sales also decreased significantly as many buyers postponed their buying decision. The buyers were expecting a correction in prices, but developers were unable to comply as they were already operating on thin margins. However, this uncertainty created havoc in the sector in short term. In recent periods, sales and new launches have started to gain momentum and these policy changes are expected to create positive sentiments around the sector for buyers and investors.

Consolidation on a Rise

In the absence of adequate funds, piled up unsold inventory, and stringent new norms, many developers may further require to collaborate and merge with those having stronger financial health and higher brand value to enable the culmination of their projects. Currently, trend of Joint Ventures and Joint Development among developers is gaining prominence. As per ANAROCK research, consolidation has been widespread in the last few years and has taken out many developers from the business.

Hampered Consumer Sentiments

Before 2013, many buyers lived the dream to have their own house, but a decade long execution delays in the case of many projects shattered their dreams. After the policy reforms, these developers faced insolvency proceedings in National Company Law Tribunal. As of June 2019, 421 realtors were under the corporate insolvency resolution process, up from 209 as of September last year.

Number of developers under Corporate Insolvency Resolution Process

	CLOSED	ONGOING	TOTAL
As of June 30, 2019	164	257	421
As of March 31, 2019	128	231	359
As of December 31, 2018	87	148	235
As of September 30, 2018	68	141	209

Source: Insolvency and Bankruptcy Board of India

Obsolete Construction Technologies

The residential construction sector also requires the introduction of new and effective technologies. Large-scale projects need to be executed using prefabricated construction, micro-apartments or 3D printing. The regulations imposed by RERA has heavy penalty for delayed project which impacts the profitability of the developer. Timely and cost-effective implementation can only be ensured if age-old methods are replaced.

Buyers and investors are losing confidence in the asset class and are exploring other investment options. To restore the confidence of buyers, major policy reforms such as RERA, IBC, GST were introduced. In the short run, these policy reforms affected the sector adversely. If the implementation of these reforms is done in their true spirit, the way ahead may lead to re-emergence of the sector.

4

Policy Reforms

Usher in transparency, financial discipline, and accountability in the Indian real estate sector

To address the challenges confronted by residential real estate, the government introduced a slew of measures at regular intervals.

The residential real estate has been struggling with low demand owing to passive consumer sentiments. To revive the demand in the short run, government along with RBI has taken some robust measures.

Lowest Repo Rate in Last 9 Years

- To increase liquidity in the market, RBI lowered the repo rate for the fifth consecutive time this calendar year
- After the recent reduction of 25 bps, the repo rate stands at 5.15% which is the lowest in the last 9 years
- Home loans are expected to get cheaper as major banks may transfer the benefit to the end-users
- RBI's latest directive to commercial banks to link their interest rates with the repo rate will effectively help customers avail direct benefits of lower rates as and when the rates are altered

Subsidies Provided Under Pradhan Mantri Awas Yojana (PMAY)

- The mission started in 2015 with an aim to provide 'Housing for All by 2022'
- The objective is to provide shelter to the urban poor mainly Low-Income Group (LIG) & Economically Weaker Section (EWS)

TYPE	INCOME (PER ANNUM)	INTEREST SUBSIDY (%)	UP TO LOAN AMOUNT (₹ LAKH)	UP TO CARPET AREA (SQ M)
Economically Weaker Sections (EWS)	Up to ₹3 Lakh	6.5	6	30
Low Income Group (LIG)	₹3 Lakh – 6 Lakh	6.5	6	60
MIG – I	₹6 Lakh – 12 Lakh	4	9	160
MIG – II	₹12 Lakh - 18 Lakh	3	12	200

- As per ANAROCK research, during the past 5 years, the share of launches in the affordable segment across the top 7 cities of India, increased from 35% in 2013 to 40% in 2019

Tax Benefits and Tax Holidays

Under Budget 2019, the finance minister made certain announcements for the realization of Housing for All and affordable housing goals.

- A tax holiday has already been provided on the profit earned by developers of affordable housing
- Increased the deduction that can be claimed for interest paid on loans taken for affordable housing from ₹2 Lakh to ₹3.5 Lakh per annum for houses valued under ₹45 Lakh. The deduction is available on loans taken before the end of the financial year 2020

Infrastructure Status to Affordable Housing

- The government has granted infrastructure status to the affordable housing segment
- Affordable housing projects can now avail the associated benefits such as lower borrowing cost, tax concessions and increased flow of foreign and private capital

Creation of Stress Fund

- Recently, the Finance Minister announced ₹20,000 crore fund to support last-mile funding of unfinished affordable and mid-segment housing units
- Projects in the affordable and mid-segment, which are non-NPA, non-NCLT, and have positive net worth can get the benefit of the funding
- ₹10,000 crore is to be given by the government and remaining by other investors such as LIC and sovereign funds

The government has already enacted major policy reforms, and these are expected to reinforce the sector in the long run.

Real Estate Regulation and Development Act, 2016

Real Estate Regulation and Development Act came into effect from May 2016. The Act was aimed to usher transparency, financial discipline, and accountability in the real estate sector. This was done to increase the confidence level of the buyers and prevent the developers from wilful misuse of funds that lead to a delay in project execution. The reform came with key tenets that struck a chord with buyers as well as other stakeholders of the real estate sector. Some of the key features of the act are as follows:

- Project to be registered only after receiving all clearances
- Projects with sizes less than 500 square meters and below 8 units are exempted from RERA
- Developers can advertise a project only post RERA registration
- An escrow account for a project to avoid diversion of funds
  - The act stipulates "70% of the amount realized for the real estate project from the allottees, from time to time, shall be deposited into an escrow account and will be maintained in a scheduled bank to cover the cost of construction and the land cost and shall be used only for that purpose"
- Timeline to be provided for project completion
- Consent of 2/3rd of the allottees to modify the layout

Although RERA came into force to favour the buyers, it was state governments' responsibility to implement it in true spirit. While it has been close to 3 years of RERA's implementation, many states still fall short.

Report Card at 3 Years of RERA

30 States/ Union Territories

NOTIFIED RULES UNDER RERA[14]

4 North Eastern States

(ARUNACHAL PRADESH, MEGHALAYA, NAGALAND & SIKKIM) UNDER PROCESS

46,034 Projects

36,314 Agents

REGISTERED UNDER RERA[15]

22,679 Registered Projects

21,680 Registered Agents

MAHARASHTRA TOPS THE CHARTS

28,860 cases disposed by RERA authorities[16]

61% FROM MAHARASHTRA AND UTTAR PRADESH

9,271 complaints in Maharashtra[17]

65% RESOLVED BY RERA AUTHORITY

Most of the complaints registered with UP RERA related to promoters and projects pertained to developments in NCR which came under UP RERA's jurisdiction, which accounted for 76% of the total complaints (17,077) filed.

[14] Ministry of Housing and Urban Affairs; as of 26th October, 2019
[15] Ministry of Housing and Urban Affairs; as of 26th October, 2019
[16] Ministry of Housing and Urban Affairs; as of 26th October, 2019
[17] maharera.mahaonline.gov.in; as of 24th October, 2019

State-wise Status of RERA

(As on 26th October, 2019)

SL.	STATE/UNION TERRITORY	GENERAL RULES	ESTABLISHMENT OF REGULATORY AUTHORITY	ESTABLISHMENT OF APPELLATE TRIBUNAL	WEB PORTAL	REGISTRATIONS		TOTAL NO. OF CASES DISPOSED BY AUTHORITY
						PROJECTS	AGENTS	
1	Andaman & Nicobar Islands	Notified	Permanent	Permanent	Setup	1	20	0
2	Andhra Pradesh	Notified	Permanent	Permanent	Setup	550	78	14
3	Arunachal Pradesh	Not Notified	Not Established	Not Established	Not Setup	-	-	-
4	Assam	Notified	Interim	Not Established	Not Setup	101	13	0
5	Bihar	Notified	Permanent	Permanent	Setup	760	233	109
6	Chandigarh	Notified	Permanent	Interim	Setup	3	14	0
7	Chhattisgarh	Notified	Permanent	Not Established	Setup	1,074	406	483
8	Dadra & Nagar Haveli	Notified	Permanent	Permanent	Setup	84	2	0
9	Daman & Diu	Notified	Permanent	Permanent	Setup	22	0	0
10	NCT of Delhi	Notified	Permanent	Interim	Setup	21	194	53
11	Goa	Notified	Interim	Not Established	Setup	453	177	17
12	Gujarat	Notified	Permanent	Interim	Setup	6,251	1,047	1,326
13	Haryana*	Notified	Permanent	Permanent	Setup	718	1,673	2,746
14	Himachal Pradesh	Notified	Interim	Not Established	Setup	36	32	58
15	Jammu & Kashmir**	-	-	-	-	-	-	-
16	Jharkhand	Notified	Permanent	Interim	Setup	165	4	41
17	Karnataka	Notified	Permanent	Permanent	Setup	2,979	1,653	1,595
18	Kerala	Notified	Permanent	Not Established	Not Setup	-	-	0
19	Lakshadweep	Notified	Not Established	Not Established	Not Setup	-	-	0
20	Madhya Pradesh	Notified	Permanent	Permanent	Setup	2,425	621	2,544
21	Maharashtra	Notified	Permanent	Permanent	Setup	22,679	21,680	6,071
22	Manipur	Notified	Interim	Interim	Not Setup	-	-	0
23	Meghalaya	Not Notified	Not Established	Not Established	Not Setup	-	-	-
24	Mizoram	Notified	Interim	Not Established	Setup	-	-	0

SL.	STATE/UNION TERRITORY	GENERAL RULES	ESTABLISHMENT OF REGULATORY AUTHORITY	ESTABLISHMENT OF APPELLATE TRIBUNAL	WEB PORTAL	REGISTRATIONS		TOTAL NO. OF CASES DISPOSED BY AUTHORITY
						PROJECTS	AGENTS	
25	Nagaland	Not Notified	Not Established	Not Established	Not Setup	-	-	-
26	Odisha	Notified	Permanent	Permanent	Setup	319	54	767
27	Puducherry	Notified	Interim	Permanent	Not Setup	28	2	1
28	Punjab	Notified	Permanent	Interim	Setup	777	1,796	589
29	Rajasthan	Notified	Permanent	Permanent	Setup	1,110	1,084	260
30	Sikkim	Not Notified	Not Established	Not Established	Not Setup	-	-	-
31	Tamil Nadu	Notified	Permanent	Permanent	Setup	1,190	1,029	295
32	Telangana	Notified	Interim	Interim	Setup	1,322	917	0
33	Tripura	Notified	Interim	Interim	Not Setup	-	-	0
34	Uttar Pradesh	Notified	Permanent	Permanent	Setup	2,710	3,312	11596
35	Uttarakhand	Notified	Permanent	Interim	Setup	256	273	295
36	West Bengal***	Not Notified	Not Established	Not Established	Not Setup	-	-	-
TOTAL						46,034	36,314	28,860

* Haryana has 2 Regulatory Authorities i.e. one for Gurugram and other at Panchkula for rest of Haryana.

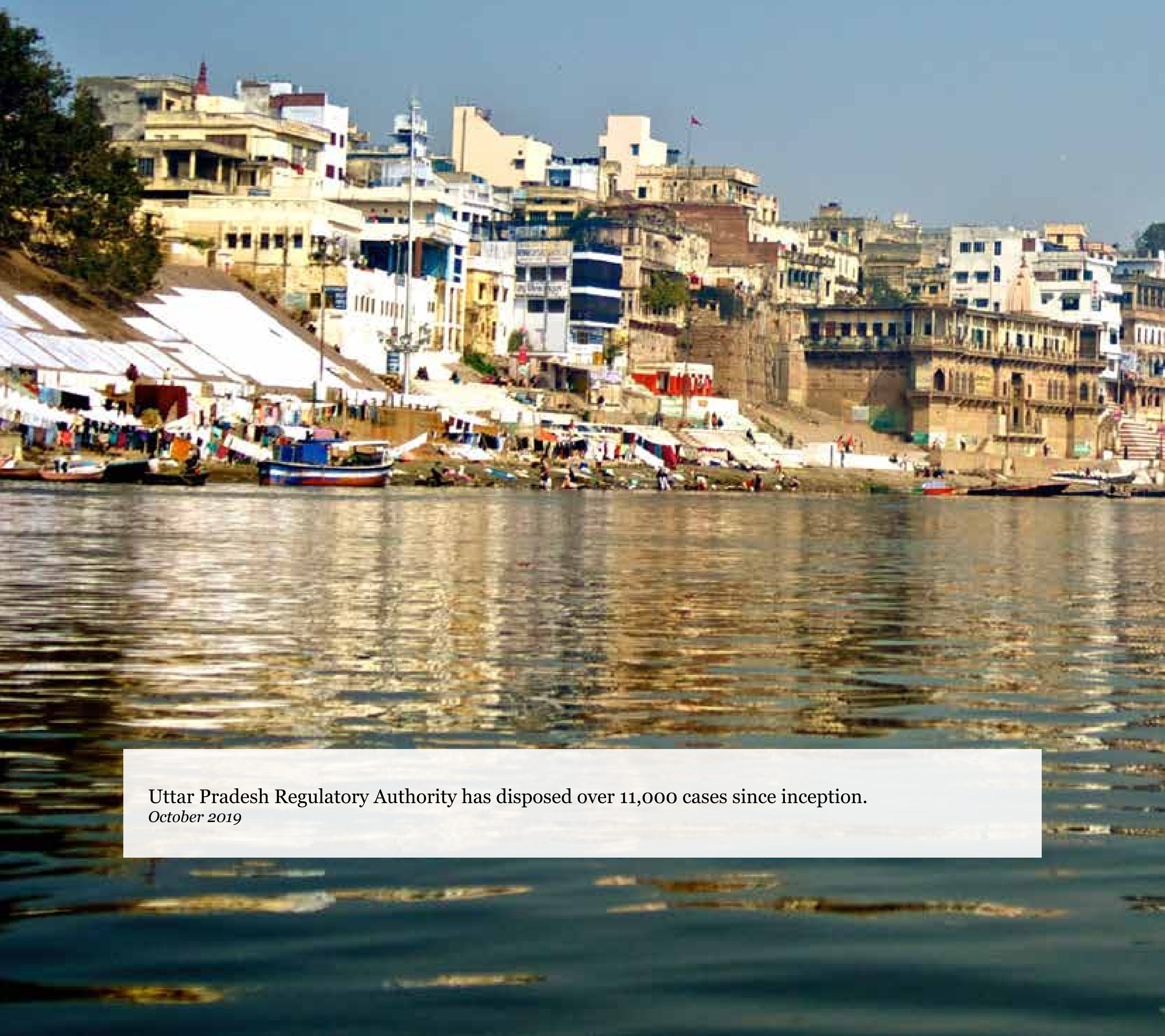
** Earlier RERA was not applicable in Jammu & Kashmir. "The Jammu & Kashmir Real Estate (Regulation and Development) Act, 2018" was enacted by Government of Jammu & Kashmir and it was in force. However, this Act was repealed by Jammu & Kashmir Reorganization Act, 2019. Soon, RERA will be notified in the Union Territories of Jammu & Kashmir and Ladakh after reorganization comes in force.

***West Bengal has enacted its own Act namely 'West Bengal Housing Industry Regulation Act, 2017' however, state has been advised by MoHUA to notify the rules under Real Estate (Regulation & Development) Act, 2016.

Source: Ministry of Housing and Urban Affairs

Dilution of the Act Blurs the Vision and Intent

When RERA was enacted in India, it granted powers to the state governments to draft rules for carrying out the provisions of the act, as land is a state subject. The central government notified the rules for UTs, considered as undiluted rules. But the law has not been implemented to its true spirit in many states, keeping loopholes for developers to slip out.

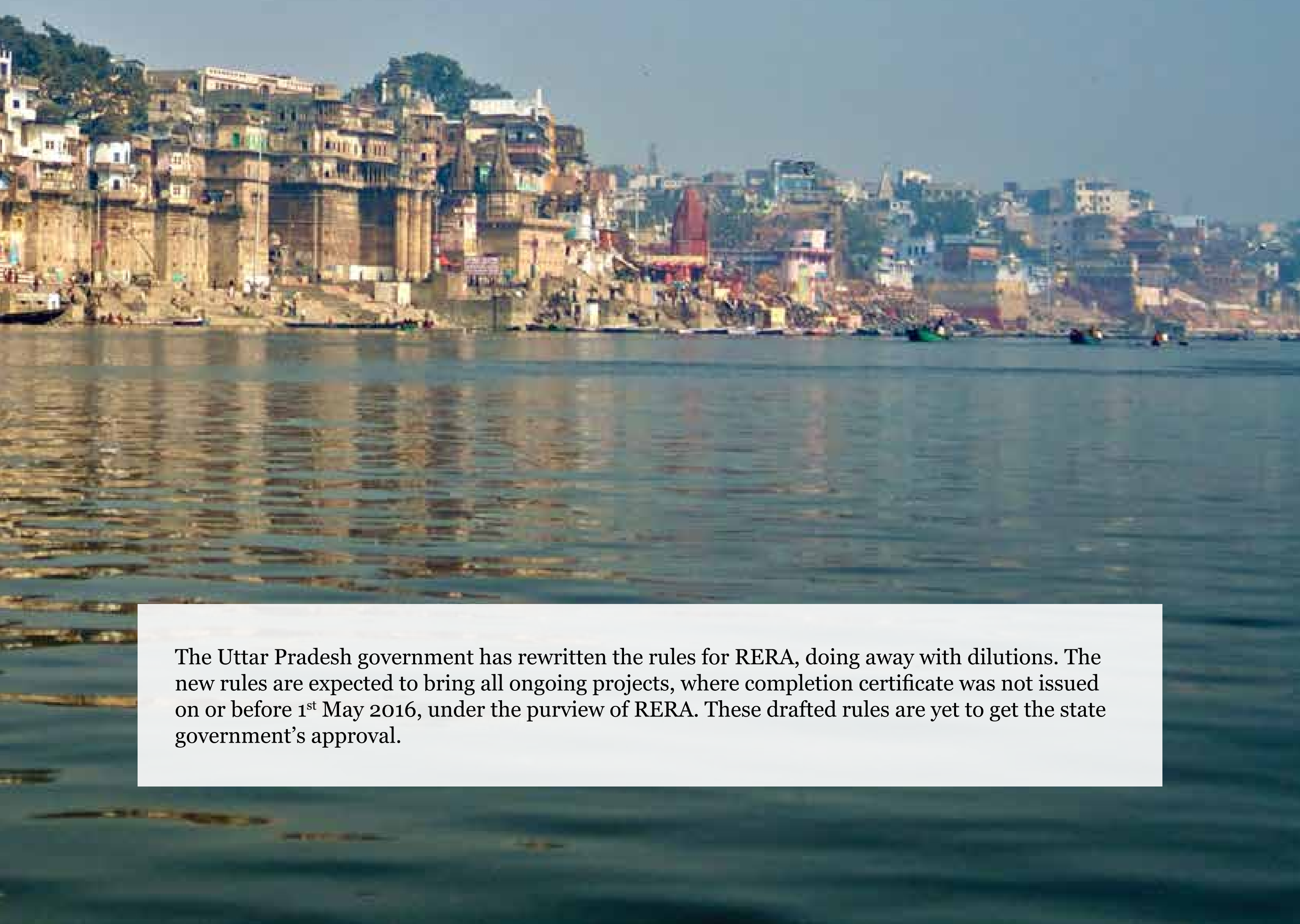


Uttar Pradesh Regulatory Authority has disposed over 11,000 cases since inception.
October 2019

Most of the States Kept Ongoing Projects Out of RERA's Purview

Most of the states excluded ongoing projects from the ambit of RERA. Some states trimmed down the penalty in case of compounding of offence. This differential rate for the consequence has made RERA ineffective in these states. Maharashtra and Gujarat favoured the developers of ongoing projects by tweaking escrow account rules. It mandated to deposit 70% of the future receivables, not the earlier receivables, in case of ongoing projects from home buyers in a separate bank account. This appears to be rational as such projects are already under construction and significant expenditure has already been incurred.

The states have diluted the provisions to favour developers which defeats the core purpose of the act. In these circumstances, the central government should come up with clear directives to achieve the objectives.



The Uttar Pradesh government has rewritten the rules for RERA, doing away with dilutions. The new rules are expected to bring all ongoing projects, where completion certificate was not issued on or before 1st May 2016, under the purview of RERA. These drafted rules are yet to get the state government's approval.

RERA Implementation Gap Analysis: Key States

STATES	ONGOING PROJECTS	COMPOUNDING OF OFFENCE	CONSENT TO CHANGE THE SANCTIONED PLAN	ESCROW ACCOUNT
Central RERA	All ongoing projects included which have not received the completion certificate prior to the commencement of the act	A fine of up to 10% of the project cost and imprisonment for up to three years	Consent of 2/3rd of allottees required to change the sanctioned plan	70% of the amount realized from allottees shall be deposited in a separate account and can be used for that project only in the proportion of the construction growth
Uttar Pradesh	Excluded the ongoing projects which have applied for an occupancy certificate (OC) or received a partial completion certificate (CC) or sale deed for 60% of the flats executed before the act was notified	A fine of a maximum of 10% in lieu of imprisonment	Not Mentioned	As per Central RERA
Haryana	Excluded all ongoing projects	A fine between 5% to 10%	The act does not define the minimum number of allottees required to make changes in the sanctioned plan	As per Central RERA
Kerala	Excluded all ongoing projects which have received occupancy certificate prior to commencement of the act	A fine of 10% in lieu of imprisonment	Not Mentioned	As per Central RERA
Telangana	Excluded ongoing projects for which building permissions were approved prior to 1 January 2017 by local authorities	A fine of 10% in lieu of imprisonment	The act does not define the minimum number of allottees required to make changes in the sanctioned plan	As per Central RERA
Karnataka	Excluded ongoing projects in which 60% of the work is completed or partial occupancy certificate obtained	A fine of up to 10% in lieu of imprisonment	Not Mentioned	As per Central RERA

Not in favour of buyer/Deviation from Central RERA

In favour of buyer/As per the Central RERA

STATES	ONGOING PROJECTS	COMPOUNDING OF OFFENCE	CONSENT TO CHANGE THE SANCTIONED PLAN	ESCROW ACCOUNT
Andhra Pradesh	Excluded ongoing projects in which 50% sale deeds or laying of all slabs completed	A fine of 10% in lieu of imprisonment	The act does not define the minimum number of allottees required to make changes in the sanctioned plan	As per Central RERA
Maharashtra	Excluded ongoing projects if any building in a project is received occupancy certificate or completion certificate	Not Mentioned	Changed the term from 'sanctioned plan' to 'last sanctioned plan' which made all earlier changes done to the plan in ongoing projects without the consent of 2/3rd of allottees legal. It also has a term called, 'proposed plans' instead of 'sanctioned plans' which can be submitted to Maharashtra RERA but central RERA has only one term call 'sanctioned plans'	Deposit 70% of the future receivables in separate account, not the earlier receivables, in case of ongoing projects
Gujarat	As per Central RERA	A fine of 5% in lieu of imprisonment	Not Mentioned	Deposit 70% of the future receivables in separate account, not the earlier receivables, in case of ongoing projects
Punjab	Excluded ongoing projects which have received the completion certificate or partial completion certificate	A fine of up to 10% in lieu of imprisonment	More than 5% alteration is not allowed in the sanctioned plan without the written consent of the allottee. However, the act does not define the minimum number of allottees required to make changes in the sanctioned plan	As per the central RERA

Source: Compiled by ANAROCK Research from the RERA documents available on their respective RERA websites as on 17th October 2019

Note: The table is not exhaustive and is meant only to give an idea about dilutions.

UP RERA is expected to de-register more than two dozen projects in the National Capital Region that have not recorded progress. Fresh tenders to be invited from developers to complete construction. The new promoters to have access to all the future receivables of the project and any other asset owned by the earlier parties. It is commendable that the state is becoming proactive on stalled real estate projects.

Insolvency and Bankruptcy Code (IBC)

- IBC was enacted on 28th May 2016 for reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time-bound manner for maximization of the value of assets
- Insolvency resolution in India took 4.3 years on an average in 2015 which was significantly higher than other countries such as the United Kingdom (1 year) and the United States of America (1.5 years)[18]
- The law came into force to consolidate and amend all existing insolvency laws, simplify and expedite the Insolvency and Bankruptcy proceedings in India
- As per the latest developments in the code, home buyers are classified as 'financial creditors' rather than operational creditors
- The money paid by homebuyers will be considered as a credit to the builder, not as revenue unlike before
- This right will help homebuyers regain their funds from the defaulting builders

Demonetization (DeMo)

- November 2016 was the month when the old 500 and 1,000 rupee currency notes ceased to function as legal tender. New currency pieces of ₹500 and ₹2,000 were introduced by the central government, in lieu of the old
- The demonetization drive affected the real estate sector, as the sector was dependent heavily on cash transactions
- Since the demonetization, sales and launches reduced significantly across the country. In Q4 2016, launches witnessed an annual decline of 62% and sales dipped by 54% in the top seven cities of India
- The effect of demonetization is now slowly fading out as launches and sales recovered in most parts of the country
- Major cities of India have also witnessed minor corrections in prices since then

[18] 'Time to resolve insolvency', World Bank, 2015

Benami Transactions (Prohibition) Amended Act, 2016

- If a buyer purchases a property in someone else's name (benamidar) other than himself, it is considered a Benami property. A Benami transaction is –
  - Where payment is provided by a person other than the transferee or person in whose name the property is held
  - Where the benamidar is a fictitious person or entity
  - Where benamidar is not aware of or denies knowledge of the transaction
  - Where payer of consideration is fictitious or is untraceable
- The guilty person shall be punishable with imprisonment for a term not less than one year, but which may extend up to 7 years and shall also be liable to fine which may extend up to 25% of the fair market value of the property
- The objective of this act was to curb the use of unaccounted cash transactions associated with properties and bring ethics to the sector

Goods and Services Tax (GST)

- The law came into force from 1st July 2017 to remove multiple taxations which seek to transform India with its one nation, one market and one tax principle
- In the real estate sector, ready-to-move-in properties and land are exempt from GST
- Initially, for ongoing projects, GST charged at the rate of 8% for affordable housing (valued up to ₹45 Lakh with carpet area under 90 sq m in non-metropolitan cities/towns and 60 sq m in metropolitan cities) and 12% for projects other than affordable with the provision to receive ITC

Post the announcement on 1st April 2019, the GST rates on under-construction properties are lowered

- As per the new rates, under-construction properties attract 5% GST without a provision to receive an input tax credit (ITC)
- Homebuyers of affordable housing, as per the criteria mentioned above, are levied with only 1% GST without an ITC benefit
- Alternatively, for ongoing projects, where construction and actual booking both have started before 1st April 2019 and which have not been completed by 31st March 2019, GST may be charged at the old rates with the provision to receive ITC
- Cost of ownership came down due to recent reduction in GST rates which is likely to boost the absorption in the affordable segment

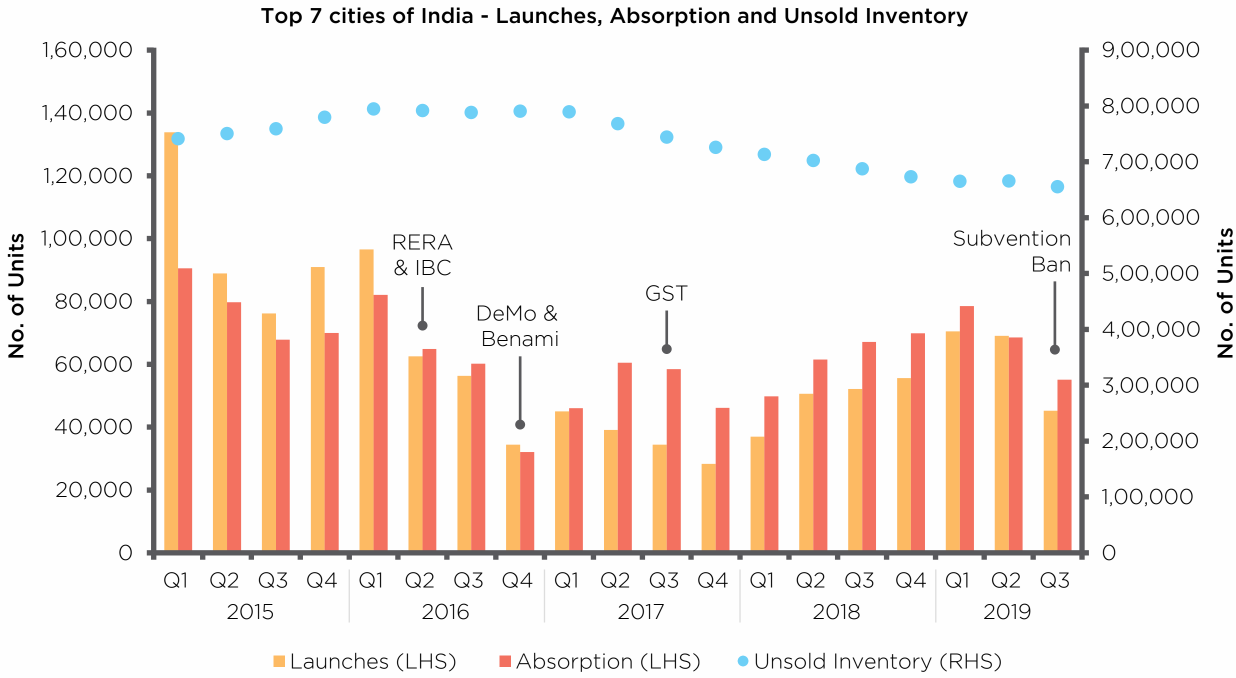
Ban on Subvention Schemes

- National Housing Bank directed Housing Finance Companies (HFCs) in July 2019 to refrain from lending under subvention schemes
- Under the scheme, homebuyer books a flat by paying up to 20% of the cost as an advance and rest is paid by the lender to the developer as the construction progresses but as a loan to the buyer. The developer takes care of pre-equated monthly instalments for the time period as agreed upon
- The scheme has been a preferred option by both buyers and developers as it provided finance to the developer at a lower cost while homebuyers enjoyed not paying rent and EMI together, depending on the scheme
- But the liability of the loan payable to HFCs by developers on behalf of homebuyers rested with the latter
- This option was seen to be misused and many developers defaulted servicing the mortgage as per the agreed terms
- In the long term, the new move is expected to create Indian real estate as a transparent, predictable and attractive marketplace for both end-users and investors

Draft Model Tenancy Act, 2019

- The archaic Rent Control Act has gathered operational inefficiencies and has led to several adverse situations, including weakening investments in rental housing and deteriorating municipal property tax revenue
- A new draft Model Tenancy Act 2019, has been drafted by the Ministry of Housing and Urban Affairs to promote rental housing by balancing the rights and responsibilities of landlords and tenants including a process of the fast adjudication for resolution of disputes
- The act provides protection from overstaying of the tenant, compulsory rent receipts from the landlord, cap on security deposits (2 month's rent for residential and 1 month's rent for non-residential property) amongst other provisions
- As of now, the act is only a model in nature and is not mandatory for states to adopt it
- In the long run, the act may help to resolve the current problems associated with renting a property and may pave the way for the development of adequate rental housing stock across the country

Since the introduction of RERA, launches, and sales reduced significantly owing to uncertainty in the market. Launches and sales decreased by 38% and 7% respectively in Q2 2017 as compared to Q2 2016, showing the adverse effect of RERA and Demonetization. Gradually, the dust settled down and launches and sales increased by 77% and 13% respectively in Q2 2019 as compared to Q2 2017. RERA, DeMo, and GST changed the landscape of the Indian real estate sector completely. In the short term, they slowed down the sector, but their effects are slowly fading out.



Government introduced a slew of measures to curb the challenges faced by residential real estate. These reforms are expected to benefit in long term by infusing transparency, accountability and ethics to the sector, only if implemented to its true spirit.

5

Residential Real Estate Analysis

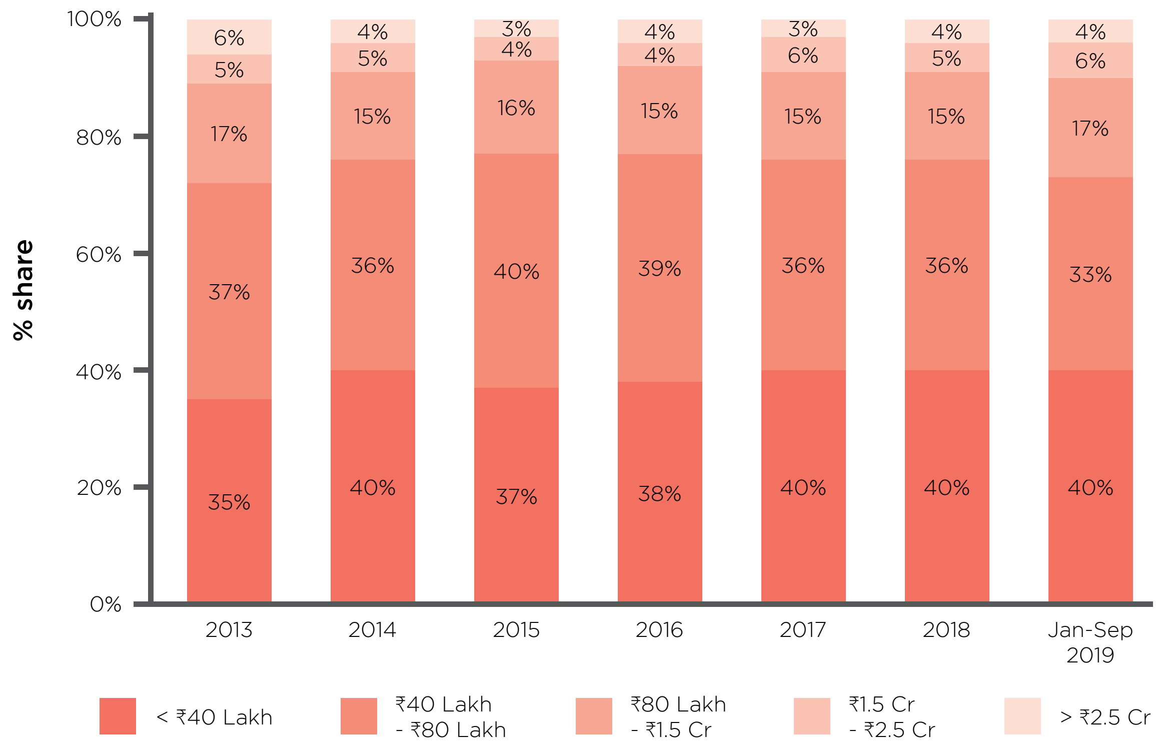
Overview of the top 7 cities; key focus on Noida, Greater Noida and Ghaziabad

Indian real estate has been reeling under the pressure of several reforms and changes since the last couple of years. Buyer sentiments have been low due to the rapidly changing scenarios together with execution delays and unfriendly practices adopted by developers. To reinstate financial discipline, transparency, and accountability the government introduced structural changes to the sector.

Launches and sales previously peaked in 2014 to 5.5 Lakh and 3.4 Lakh units respectively. Although the launches and sales reduced by 28% and 10% respectively in 2015 compared to previous year, the rate of decrease amplified after the above-mentioned reforms. In 2016, launches and sales decreased by 36% and 22% respectively compared to previous year. However, launches decreased at a faster pace compared to sales, resulted in reduction in unsold inventory. As of September 2019, top seven cities of India have unsold inventory of 6.56 Lakh units.

This piled up unsold inventory was dominated by the mid and luxury segments. The government's push for affordable housing shifted the focus on affordable houses (priced < ₹40 Lakh) in new launches increased to 40% in 2019 from 35% in 2013. This share has been stable since 2017 and is expected to increase further in near future owing to subsidies provided by government to promote affordable housing. On the contrary, the share of mid-segment shrunk to 33% in 2019 from 37% in 2013, the segment peaked to 40% in 2015. The share of the luxury and ultra-luxury segments have been largely stable.

Top 7 cities of India -Budget-wise Launches



Source: ANAROCK Research

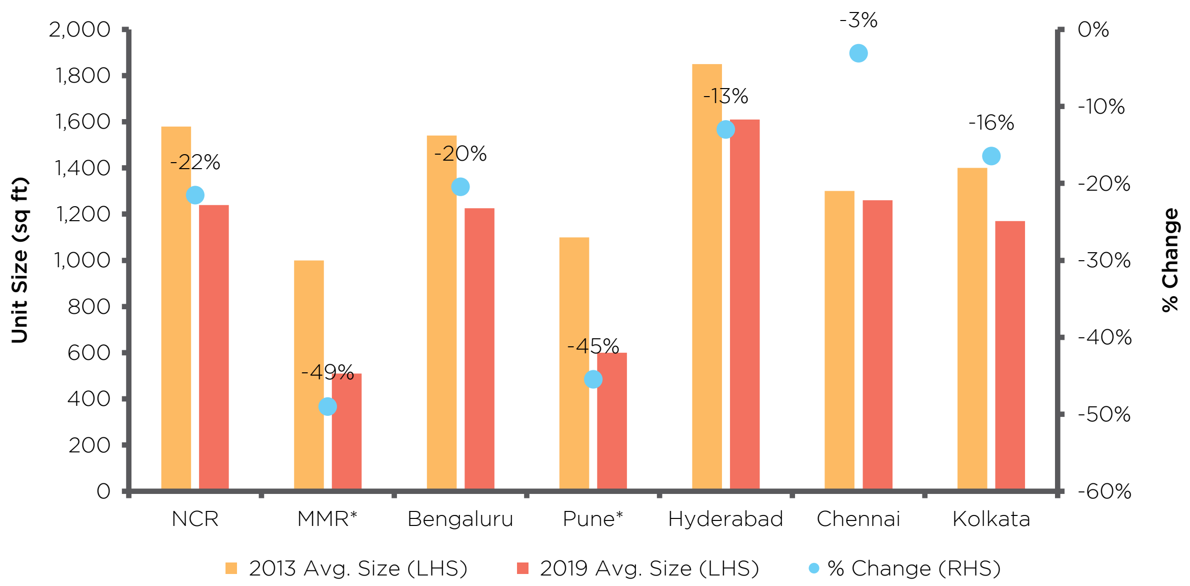
Due to oversupply in the market and tepid demand, developers were already selling on thin margins which made it impossible to trim down the prices further. The developers were also desperately trying to make homes affordable to ensure liquidity. To make homes affordable, developers started shrinking sizes. Average sizes in the top 7 cities of India shrunk in the range of 3% to 49% from 2013 to 2019. MMR reported the maximum reduction of 49% in average size of the apartment followed by Pune at 45%.

On the other hand, the average size of the apartment in Chennai reduced by only 3% in last seven years. While Hyderabad has shown its appetite for bigger sized units, approximately 1,600 sq ft, MMR has the lowest average apartment size of nearly 500 sq ft in top 7 cities of India owing to scarcity of land resulting in higher prices.

Despite having a majority of the launches in affordable segment in MMR, the city has the maximum unsold inventory and highest inventory overhang amongst top 7 cities of India. Hyderabad is the best performing market with unsold inventory of nearly 24,000 units and inventory overhang of 16 months only, which is the lowest compared to other top cities of India. In addition to that, unsold inventory in Hyderabad decreased by 12% in last one year owing to higher demand than new supply. NCR has the highest inventory overhang of 43 months with close to 1.8 Lakh units of unsold inventory.

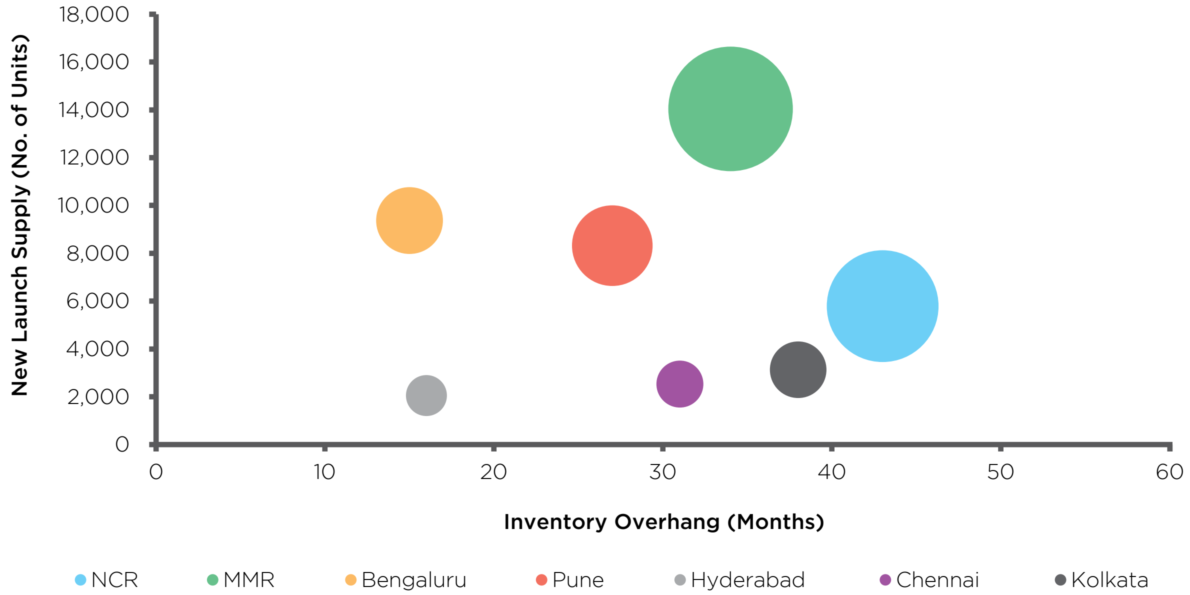
As the adverse effects of policy reforms started fading out, the sector reported increased momentum in launches and sales. These policy reforms are expected to further strengthen the sector and may provide much-needed transparency.

City-wise average unit size



Source: ANAROCK Research
* Sizes in carpet area

Inventory Overhang vs New Launch Supply vs Unsold Inventory



Source: ANAROCK Research
Note: Circle size represents unsold inventory as of Q3 2019

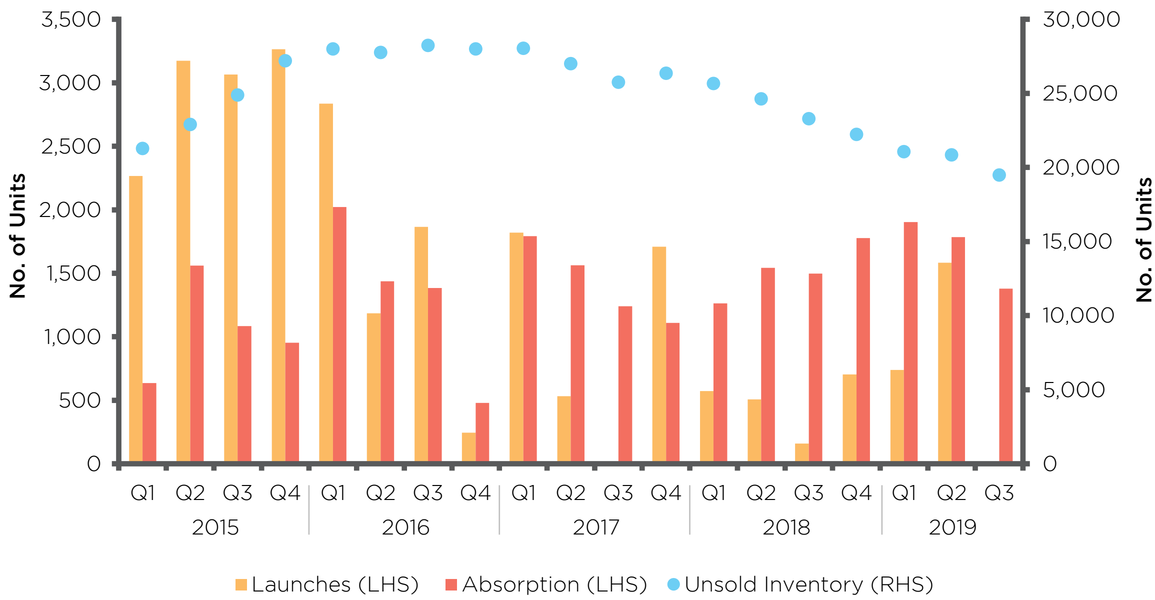
Real Estate Analysis: Key Cities of Uttar Pradesh (part of NCR)

The majority of real estate activities of Uttar Pradesh are concentrated in Noida, Greater Noida, and Ghaziabad. Since 2015, these three cities in NCR have recorded over 1 Lakh units of launches accounting for nearly 48% and sales of 1.50 Lakh units accounting for 61% share of NCR.

Noida: Stable Sales Help Reduce Unsold Inventory

The market is matured as compared to Greater Noida and Ghaziabad owing to its direct connectivity with Delhi and the presence of industrial and commercial businesses. Prior to RERA implementation, the city witnessed high level of launches and sales. In 2015, the city reported the launch of nearly 12,000 units which decreased by 50% in 2016. Since then, many quarters witnessed muted launches compared to sales which continued to exceed the launches, resulting in reduction in unsold inventory. The city witnessed relatively stable sales over the last five years. As of September 2019, the city has nearly 20,000 unsold units with an inventory overhang of 34 months which is low as compared to Greater Noida and Ghaziabad.

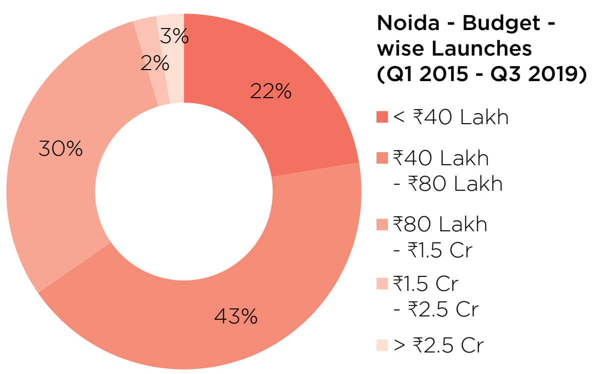
Noida - Launches, Absorption and Unsold Inventory



Source: ANAROCK Research

The city has a clear appetite for the units in the budget segment of ₹40 Lakh to ₹80 Lakh. This segment accounted for nearly 43% of the overall launches since 2015 followed by 30% in the budget segment of ₹80 Lakh to ₹1.5 crore. However, the city has only 22% of the launches in affordable segment. To contain the cost, the developers have reduced the average sizes of units from 1,550 sq ft in 2015 to 1,400 sq ft in 2019.

Noida - Budget - wise Launches (Q1 2015 - Q3 2019)



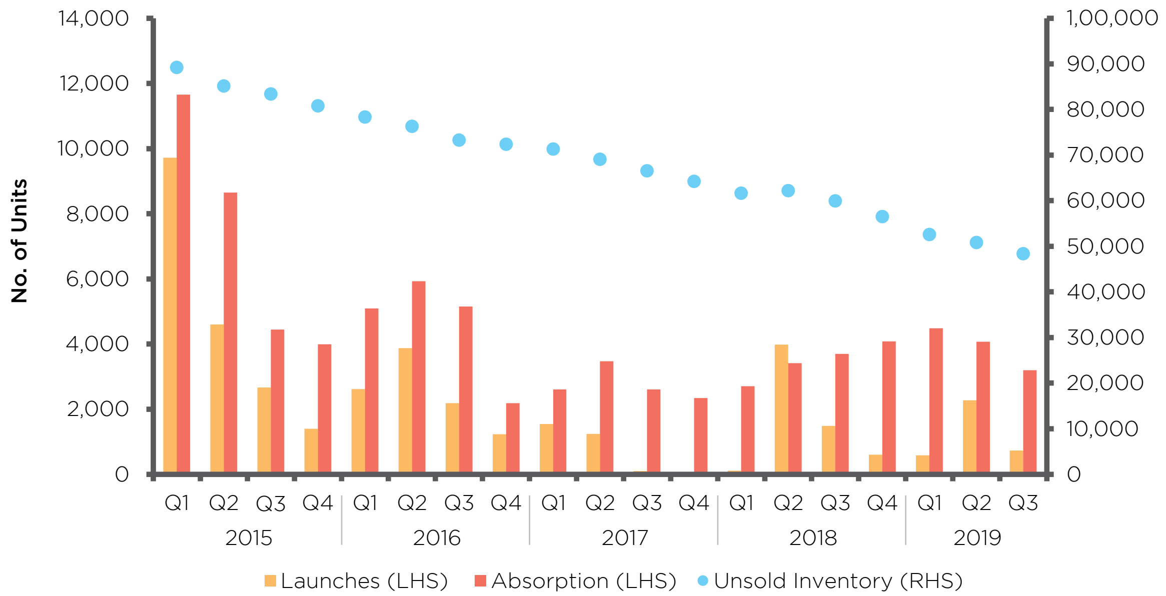
Source: ANAROCK Research

The economic and demographic profile are major growth drivers for the city. These along with the policy changes are likely to revive the market sentiments and increase the real estate activities in the future. The share of the affordable segment is also expected to increase. While, prices remained largely stable across the city, cost of construction increased over the last couple of years due to inflation and rise in labour cost. This resulted in reduction in margins. To make the proposition attractive, the developers decreased the average unit size by 10% to reduce net cost.

Greater Noida: Majority of the Unsold Inventory is Aged

Although the city witnessed a decline of 46% in unsold inventory since Q1 2015 owing to a significant reduction in launches compared to sales, still it has an inventory overhang of 37 months. As of September 2019, the city has nearly 50,000 unsold units, majority of which are concentrated in Greater Noida West.

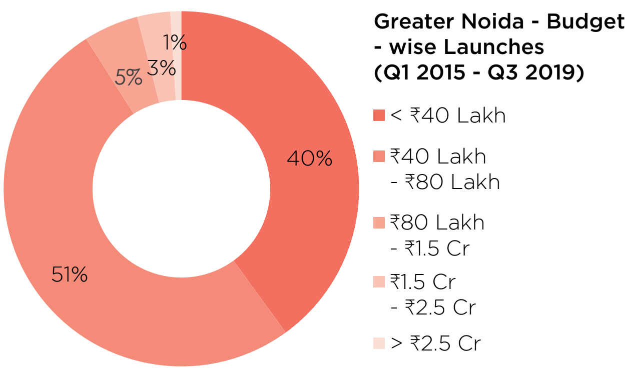
Greater Noida - Launches, Absorption and Unsold Inventory



Source: ANAROCK Research

In 2015, the city witnessed launch of 18,500 units which significantly reduced to 3,000 units in 2017 owing to RERA, Demonetization, and GST. Sales also took a hit and decreased from 29,000 units in 2015 to only 11,000 units in 2017. The markets of Greater Noida were reeling under the pressure of low sales and high unsold inventory. Buyers and investors were seen to be losing interest in the projects due to significant delays owing to litigation issues or social and environmental factors. The farmer agitations on compensation, and the National Green Tribunal were major challenges that posed a threat to the real estate sector. Massive delays in project execution was also due to lack of financial discipline and execution capabilities of few builders.

Greater Noida - Budget - wise Launches (Q1 2015 - Q3 2019)



Source: ANAROCK Research

Like Noida, the city also has a majority of the launches in the budget segment of ₹40 Lakh to ₹80 Lakh, which accounted for more than 50%. The affordable segment accounted for nearly 40% of the units launched since 2015. Availability of land, smaller apartment sizes and distance from Delhi kept apartment cost low in the city. Average prices in Greater Noida West hovers in the range of ₹3,500 - ₹3,700 per sq ft which are stable from last 3 quarters. Currently, the average size of the apartment is 1,100 sq ft. which reduced by 8% in last 5 years.

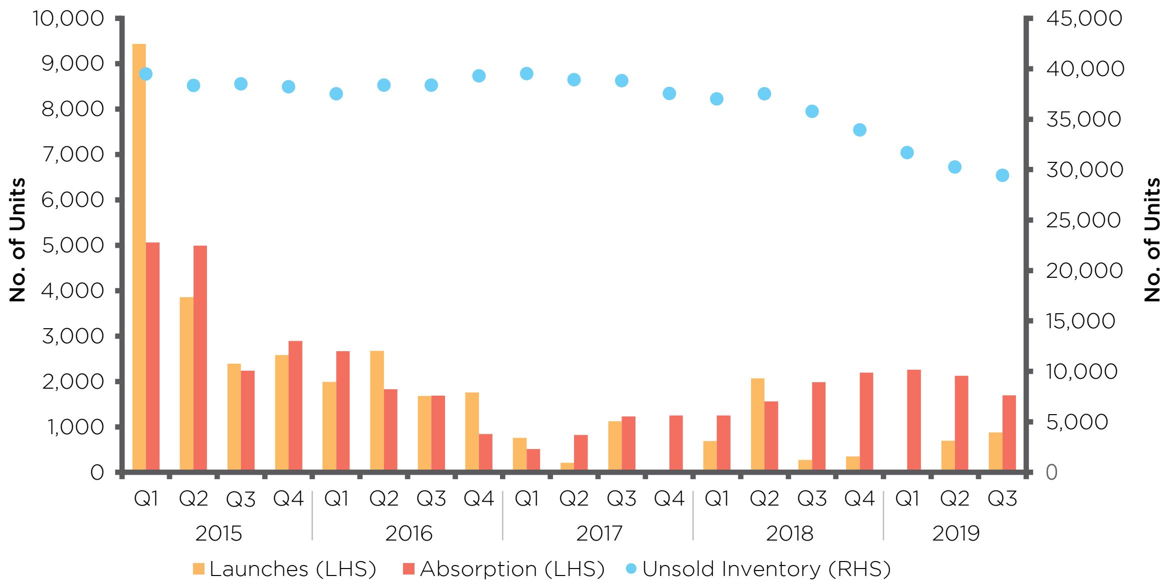
Ghaziabad: The Focal Point of Affordable Housing

The city is known for its affordability despite being directly connected to Delhi and Noida. Ghaziabad has been an industrial town housing major companies such as Dabur India, Bharat Electronics, Shriram Pistons & Rings and others. It also serves as a gateway that connects western Uttar Pradesh to the national capital. Thus, the city is gaining importance as a real estate destination.

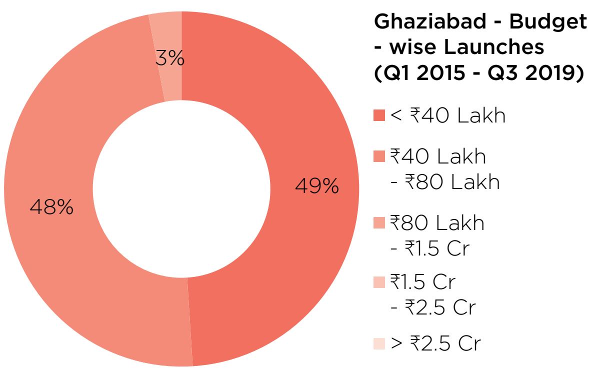
The city has nearly 49% of the launches in the affordable segment followed by mid segment at 48%. The majority of the units are under ₹80 Lakh budget segment because the city has the lowest average size of 1,060 sq ft compared to Noida and Greater Noida which has reduced by 12% in last 5 years. The city has limited options in luxury and ultra-luxury segment.

The city witnessed nearly 8,000 unit launches in 2016 which has reduced by 74% in 2017. Although, the launches increased by 62% in 2018 as compared to the previous year but has not reached the levels of 2016. On the other hand, the city sold nearly 7,000 units in 2016 which decreased by 46% in 2017. The sales improved by 84% in 2018 as compared to previous year, reaching the levels of 2016. This significant reduction in launches and revival in sales led to a decline in unsold inventory. As of September 2019, the city has an unsold inventory of nearly 30,000 units which will take 43 months to liquidate. The inventory overhang also reduced from 98 months in Q1 2018 to 43 months in Q3 2019 owing to significant reduction in launches.

Ghaziabad -Launches, Absorption and Unsold Inventory



Source: ANAROCK Research



Source: ANAROCK Research

Real estate activities in Ghaziabad is expected to gain momentum in the near future as connectivity and infrastructure improves further. Availability of large land parcels and a huge influx of migratory population in the industrial town is likely to provide the necessary impetus for the growth.

The market has increasingly turned price sensitive and the demand is largely driven by the affordable and mid-segment housing. The Indian real estate sector has surely transformed during the past few years and while the 'pain' is visible and obvious in the short term, the future certainly looks promising.

6

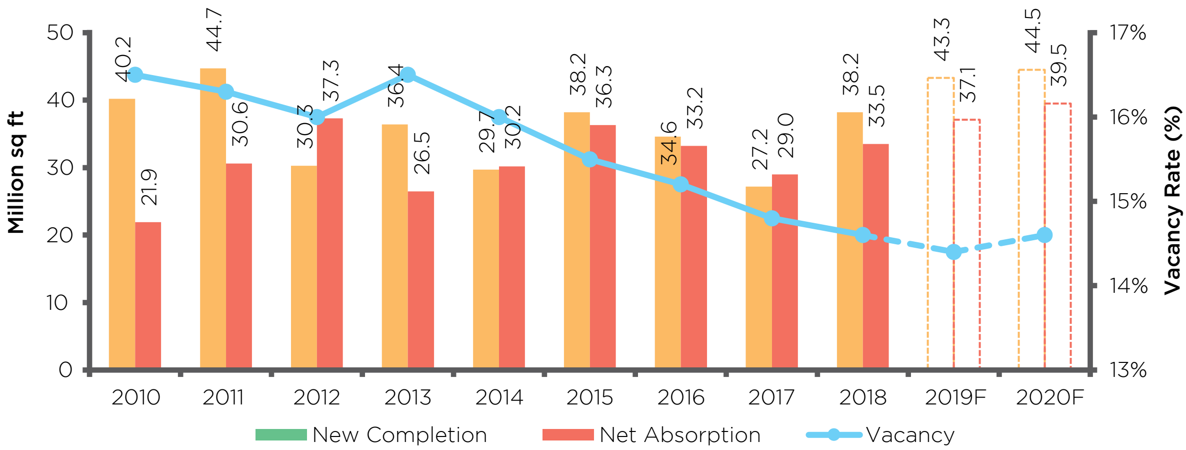
Commercial, Retail and Warehousing Sectors on a Strong Footing

Office Market on an Upswing

Transparency and accountability played a major role in the growth story of Indian office market. Although, new completions of Grade A office spaces started decreasing in 2015, it reported a significant hike of 40% in 2018 compared to previous year. It is expected to rise by 13% in 2019, reaching to 43.3 million sq ft. The rise in new completions was majorly due to limited availability amidst high demand in the market. Similarly, net absorption also rose by 16% from 29 million sq ft in 2017 to 33.5 million sq ft in 2018. It is likely to increase by 11% in 2019, reaching to the levels of 2015. The major cities of India are expected to witness strong office absorption along with rising supply pipeline in the coming years.

On the other hand, vacancy rate came down gradually to 14.6% in 2018 compared to 16.5% in 2013. It is expected to decrease further in 2019 due to increased absorption.

India Office: Demand-Supply Dynamics



Source: ANAROCK Research

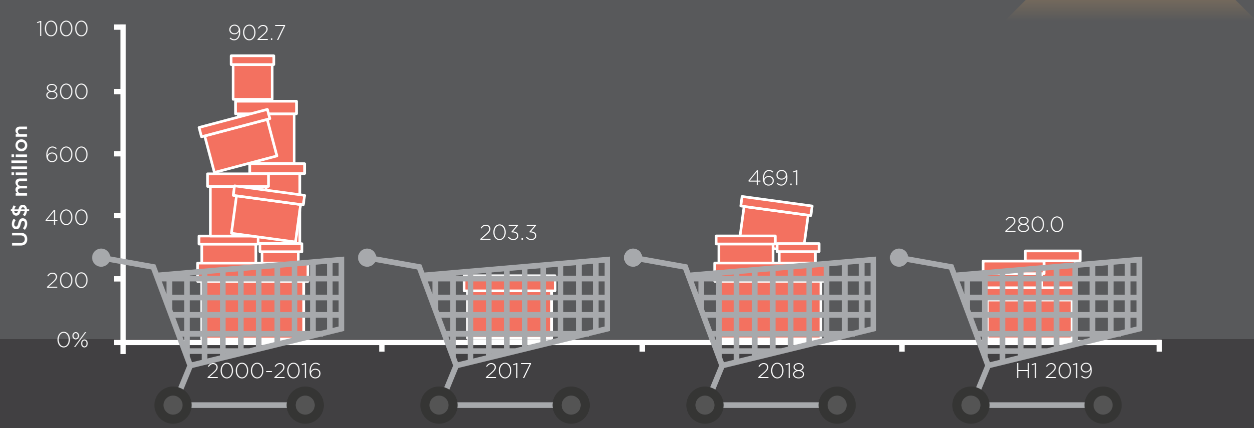
The office market in India is changing rapidly. Co-working is the newest trend in the Indian office market. Major players which are active in the co-working spaces are WeWork, Springboard, Social Works, BHIVE Workspace, Awfis, Innov8, InstaOffice, and MYHQ. These players have seen tremendous growth in the last couple of years. Recently, Awfis raised US$ 30 million in series D funding and Innov8 raised US$ 4 million in its pre-series A funding. Last year, WeWork raised US$ 3 billion from SoftBank. According to ANAROCK Research, the share of commercial real estate in private equity investments has also increased to 79% in 2019 from 33% in 2015, showing growth prospects for the sector in future.

Retail Sector Started Gaining Traction

The Indian retail sector accounts for over 10% of the country's GDP and 8% of total employment. But the market is largely unorganized, contributing 92% to the total retail sector in India. Rest 8% is organized retail market which is currently valued at US$ 60 billion. The share of the organized retail market is estimated to reach 13% by 2020 with the potential to reach approximately US$ 140-160 billion. Overall, the retail market in India is estimated to reach US$ 1.3 trillion, while the Indian e-commerce industry is expected to cross US$ 100 billion by 2020.

To substantiate the growth, the sector received US$ 1,855 million FDI equity inflows between January 2000 to June 2019. The sector has been undergoing structural changes for the last two decades. In 2012, the government allowed 51% of FDI in multi-brand retail and 100% FDI in a single brand. Since the inception of GST in 2017, FDI equity inflows in the sector increased by 131% in 2018 compared to previous year. The growth of the retail market is imminent owing to increased FDI inflows.

FDI equity inflow in retail trading (US$ million)

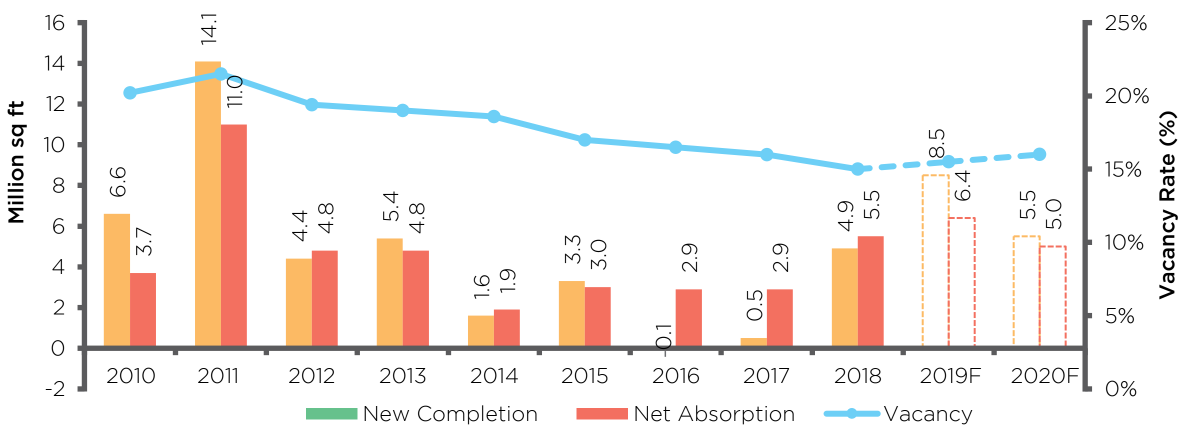


Source: Department of Industrial Policy and Promotion

The supply of new retail space has been erratic since 2011. In 2018, the sector reported the new supply of 4.9 million sq ft which was the highest in last 5 years. Similarly, net absorption has also increased by 90% in 2018 compared to previous year, reaching to 5.5 million sq ft. It was the highest since 2011. Future years are bright for the sector with a healthy supply pipeline and robust absorptions.

On the other hand, vacancy rate decreased gradually to 15% in 2018 from 21.5% in 2011. It is expected to increase to 15.5% in 2019 owing to increase in new supply.

India Retail: Demand-Supply Dynamics



Source: ANAROCK Research

Warehousing Witnessed a Rise in PE Investments Since 2017

Like the retail sector of India, warehousing sector can also be bifurcated into two parts – organized warehousing and unorganized warehousing. The majority of the warehouses in unorganized warehousing are in dilapidated buildings with poor light or ventilation. On the other hand, warehouses in organized warehousing are pre-engineered structures that are insulated, ventilated, and climate-proof with round-the-clock surveillance and standard quality and safety procedures.

As of 2019, the total warehousing space in India is estimated to be around 700 million sq ft. The warehousing sector witnessed the demand of 32 million sq ft in 2018, which outstripped the supply of 31 million sq ft witnessed for the first time in the last four years. 3PL, e-commerce, Auto & Ancillary were the top three occupiers' types during 2018.

The sector witnessed private equity investments of nearly US$ 1.1 billion between the first quarter of 2017 and the first quarter of 2019, as against zero investment in 2015 and 2016 combined. Infrastructure status to the logistics sector, the multi-modal logistics park policy, and implementation of the GST led to a sudden increase in the PE investments across the country in these sectors. Cities like Bengaluru, Chennai, and Pune reported the PE investments of nearly US$ 200 million in the first quarter of 2019.

Implementation of GST changed the landscape of the warehousing industry as occupiers do not have to lease small spaces in different cities to save the taxes levied by state governments. Now they can lease bigger warehouses instead of small warehouses owing to one taxation policy.

Due to prevailing challenges in residential real estate, investors have started to explore for other investment opportunities. Office, retail and warehousing sectors gained traction over the couple of years. Logistics sectors receiving the infrastructure status is expected to benefit the most. Also, alternatives such as student housing, co-working, co-living and senior living are gaining attention from developers and funds alike.

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The Road Ahead

Indian residential real estate sector which has grown and transformed over the last few decades faces multiple challenges today. The markets across the major cities are facing a slowdown and new launches have receded, unsold inventory has piled-up and prices have been under pressure. Such a situation is not healthy for the sector as buyers typically go on a wait-and-watch mode in anticipation of price correction or keep manoeuvring to extract a better deal from the developer. Long delays and the recent proceedings on NCLT against many developers have also weakened the buyer sentiments. On the supply side, developers are battling against subdued demand amidst a liquidity crisis which leads to financial and execution-related issues.

The government has realized the plight of the sector and has already taken a lot of initiatives to provide the necessary impetus. However, we propose some additional measures that may help to relieve the stress and aid to chart a new growth path. The solutions suggested here have been categorized as immediate, mid-term and long-term considering the feasibility of the requirement of the implementation.

Immediate Solutions: To Reinstate the Confidence

Clear Stalled and Delayed Projects

While the government has already announced the creation of a stress fund of ₹20,000 crores for the last mile funding of the projects that are stuck, this may not be sufficient to bail out the stalled projects in totality. We realize that private participation will be required to address this issue effectively. The following proposals may be considered.

- Additional FSI to developers who are willing to execute delayed/stalled projects
- In lieu of executing delayed/stalled projects, land bank of the defaulted developer to be available at a preferential rate
- Some tax benefits for the developer who undertakes the execution of delayed/stuck projects

Improve Demand

Additional financial impetus has to be provided, at least for a specific time period, to entice the buyers to take a plunge into the sector. Additional tax benefits for affordable housing have already been announced, but we feel that there's a need to do more.

- Increase the principle and interest benefits for tax deductions (across all budget segments) to encourage home buyer participation
- Provide subsidy in home loan rates for first-time homebuyers in all budget segments
- Increase the size and budget limit consideration of affordable houses to boost sales in this segment

Mid-term Solutions: Uninterrupted Execution and Ethical Practices

Easy Access to Funds and Constant Monitoring

While the demand gains momentum, the industry also needs to brace up practices to be eligible to gain the confidence of the lenders and buyers. Strict adherence to the policies laid down in RERA and quick resolution of the suits filed will help to improve the confidence and further enhance the image of the sector. Once the sector regains the trust of the lenders and the buyers, we anticipate the scenario to transform for better. Access to funds will become easier and new avenues are likely to open up, reducing dependency on the traditional channels of banks and NBFCs.

A government-controlled special purpose vehicle (SPV) needs to be set up that will control and monitor the process of development and progress of the delayed and stalled projects. Establishment of a transparent mechanism to identify such projects and a search for capable executors to enable completion within the time and cost.

Long-Term Solutions: Developing Affordable Housing in Urban Areas and the Realization of Mass Housing Projects

Most of our urban cities are witnessing a massive influx of people in search of livelihood and employment opportunities. While many professionals are still capable of getting accommodation with basic amenities and hygienic conditions, the skilled and unskilled workforces are forced to live in densely populated areas compromising on the health and safety issues. More often than not, it results in creation of slums and unorganized settlements in areas which are sometimes very prime locations of the city.

It is also true that many skilled and unskilled residents are not capable of owning their residences even in the peripheral areas of the city owing to the high cost and uncertain income. While the government has been actively considering this issue and many steps have been taken under the Pradhan Mantri Awas Yojana, the challenges in the urban area still need more focus and impetus.

We endeavour to address these challenges through some successful international case studies, which may be implemented for a brighter future of the sector.

Case Study – Affordable Housing in Urban Areas - Singapore

During the last century, Singapore has emerged as a rapidly developing nation with a strong economic base. It has successfully converted from the largest slum in South East Asia prior to 1950 to a country and city known for its picturesque landscape and vibrant economy.

During the 1950s, a quarter of a million people lived in deteriorated slums while another one third of a million lived in squatter settlements. Slum-dwellers constituted 37% of the-then population of 1.58 million. The Housing Development Board (HDB) set up in 1960 set time-bound objectives to address the issue with a long-term vision to develop a city that is par excellence, equipped with physical and social infrastructure and comparable to the developed cites globally.

1960 - 1965

- Priority to construct small-sized housing units with basic toilets and kitchen facilities
- Focus on quantity to provide basic housing to the masses

1970 - 1980

- Create self-sufficient developments that included commercial, recreational and institutional facilities
- By the end of this period, one-third of the population had access to housing

1980 - 1990

- Greater emphasis was laid on creating better quality and more picturesque environment
- Development of larger sized housing units
- Special attention was also given to the preservation of the natural landscape

By the end of the century, more than 8 lakh units were offered to house nearly 85% of the population of the country. This was achievable through financial support provided by the government in the form of grants and loans to pay for the assets. The government also provided legislative support to formalize the land acquisition process required for housing and other developments.

Recommendations for implementation in India

- Effective PPP models for self-sustainable development
- Focus on a community living concept factoring in the multi-ethnic population in slums
- Massive incentives to developers for slum redevelopment
- Attractive home loans with nominal interest rates for slum dwellers as many citizens have already been included in the banking system through the Jan Dhan Yojana

Case Study – Execution of Mass Housing Projects and Policy Framework – Hong Kong

Public housing has been a major component of residential developments in Hong Kong. Nearly 50% of the population today resides in some form of public housing. These housing units are also provided on rent to the interested tenants. In order to attract lower-income groups, the authority offers lower rentals compared to private housing. The primary objective of the authorities is to provide necessary assistance to families with low income who cannot afford private rental properties.

The rental values for the economically marginalized sector are decided based on their ability to pay. This has encouraged many such residents to opt for the scheme. Additionally, through the Tenants Purchase Scheme existing tenants in public housing estates were allowed to purchase their rented flats at discounted prices.

Recommendations for implementation in India

- Identify land banks owned by government and public sector undertakings (railways, defence, ports, etc.) within the city limits for development of mass housing
- Provide financial aid for home purchase, and home loans at nominal interest rates. The interest subsidy provided to EWS and LIG is a step towards providing this assistance
- Re-introduce the Rental Housing Scheme (RHS) to attract people who cannot afford homes and have no access to home finance schemes. Good, liveable rental housing options should be provided within the city center
- Encourage private developers to undertake the development of affordable housing projects by providing land at discounted rates as well as ensuring swift approvals
- Ensure that basic physical and social infrastructure is provided to make affordable houses liveable and viable for residents.

The road ahead for the Housing for All mission of government is indeed a step in the right direction. However, this requires massive private participation for fructification as the government alone may not be able to execute in totality. Any delays in execution will incur additional costs and may jeopardize the mission.

The residential real estate sector has been caught in the doldrums currently owing to several unscrupulous practices of the past. It is encouraging to witness that the administration and the developers are in consensus to work on a recovery plan for this situation. While the demand for housing in India remains unfulfilled, there is a need for strategic re-thinking on how the sector should evolve in the future.

The government's steps to infuse liquidity and address the concerns of the sector are indeed inspiring. The developers are also keen to overcome the hurdles and have been continuously re-working their business strategies. Several measures taken in the past few years are expected to revive the demand and chart the growth path for the bright future of the residential sector in India.

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National Real Estate Development Council (NAREDCO)

NAREDCO, established as an autonomous self-regulatory body in 1998, under the aegis of the then Ministry of Urban Affairs & Employment (now Ministry of Housing & Urban Affairs), Government of India, is mandated to induce transparency and accountability in the real estate business and transform unorganized real estate sector into one that is mature and globally competitive. NAREDCO strives to be the collective force influencing and shaping the real estate industry. It seeks to be the leading advocate of developing standards for efficient, effective and ethical real estate business practices, valued by all stakeholders of the sector and viewed as crucial to their success. It works to create and sustain an environment conducive to the growth of real estate industry in India, partnering industry and government alike through advisory and consultative processes.

Hon'ble Minister of Housing and Urban Affairs is Chief Patron of NAREDCO. He nominates six representatives from various Government Departments on the Governing Board of NAREDCO, which is responsible for formulating policies and supervise working. NAREDCO members comprise public and private sector developers, housing finance institutions, materials and products manufacturers and all others who have stake in real estate sector.

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