Real estate

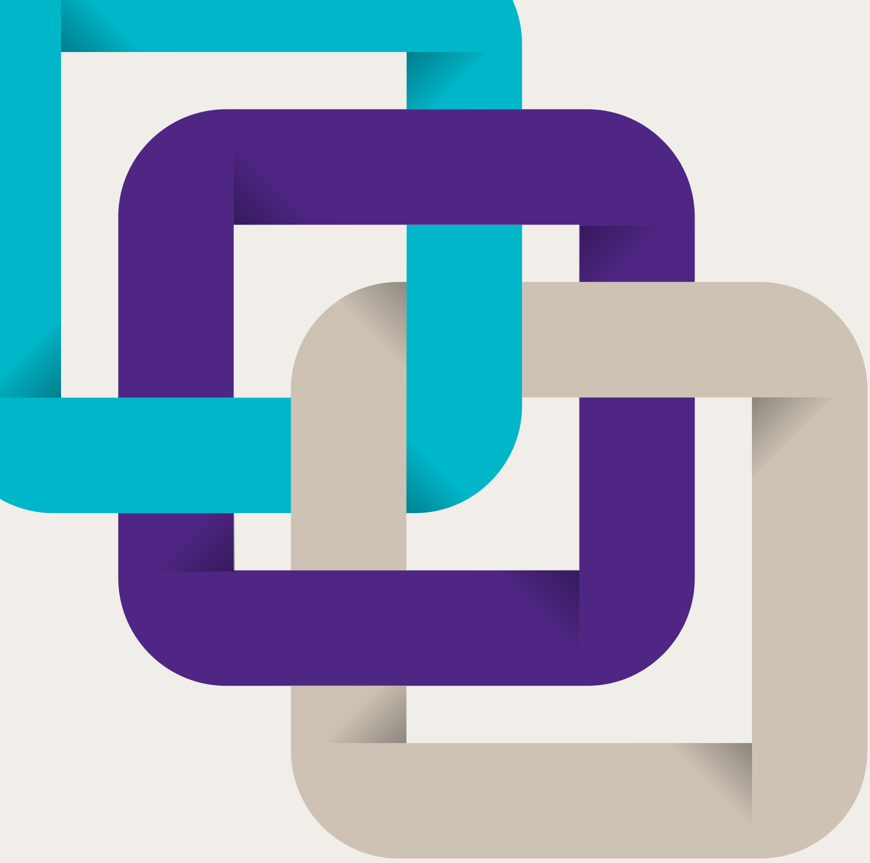
Brand visibility

Opportunity

Indian Real Estate Sector

Annual Handbook

2017



Contents

"Indian Real Estate is on the cusp of a major transformation: RERA, REITs, CLSS, Affordable housing, GST will have a far reaching impact on the entire landscape of the sector in the coming years"

Neeraj Sharma
Director
Grant Thornton Advisory Private Limited

Foreword

2016 saw many regulatory changes which did leave a mark on the markets and are further expected to have a significant bearing on the prospects in the coming years

2016 started with hope and optimism with the Union Budget announcement that sought to set the foundation for a robust economy in the longer term by prudent fiscal management. While the whole economy was going through policy reforms, the real estate sector remained in headlines due to many policy changes. Real Estate (Regulation and Development) Act 2016 (RERA), Benami Transaction Prohibition (Amendment) Act 2016, amendments in Real Estate Investment Trusts (REITs) regulations, Goods and Services Tax (GST) and demonetisation, were the ones considered to have the potential to change the way real estate sector works.

Besides, a couple of announcements made along the way are equally crucial to this sector. These include digitisation of land records, changes in arbitration norms for the construction sector and setting up of a government committee to look into the strategic sale of government assets which include land and manufacturing units. All these changes are perceived to be the game changers for the sector in the coming years.

Institutional investors have been active over the last 12 months. There is a high demand for Grade A income yielding leased commercial assets. The trend started with large funds like Blackstone that invested heavily in commercial assets. Following suit, some other funds such as Canada Pension Plan Investment Board (CPPIB), Maple Tree, Tishman Speyer and Morgan Stanley were also looking for leased asset investment aggressively in India. Besides these, couple of domestic players are also pursuing the suit. Looking at the way institutional investors are accumulating commercial grade A stock, REITs does not look like a distant dream now.

With the technology start-up boom that started in 2015, co-working space and hot-desking trends are revolutionising the office real estate. The co-working spaces were not only pioneered by start-ups, entrepreneurs and freelancers to fulfil their need to work in a suitable cost-effective environment. Large occupiers are using them for their transitional office requirement. With over 100 operators having already started their operations in Indian market, this trend is likely to scale new heights in 2017.

Recent demonetisation that became the front-page news and the most debatable topic of the year is one of the major factors that may drive short-term trends. While everybody agreed that the measure would help the economy in the long-term, the short-term consequences have been harsh for the residential real estate sector as the overall transaction volume came to a halt. Yet, the situation will improve this year as end users return to the market. Having said that, I am a firm believer of the positive impact of all these reforms and believe that property market will recover speedily.

Neeraj Sharma
Director
Grant Thornton Advisory Private Limited

Key highlights of 2016

Dec

- Indian realty expected to provide USD 77 billion REIT investment opportunity by 2020
- Canada Pension Plan Investment Board (CPPIB) to invest in India's largest realty deal

Indian real estate is likely to provide investment opportunity worth up to USD 77 billion through Real Estate Investment Trust (REIT) - eligible commercial - office and retail, properties across the country's top seven cities by 2020. Across these cities, including Mumbai, Delhi-NCR, Bengaluru and Pune, ready commercial space eligible for REIT investments amounts to 277 million square feet, accounting for less than half (44 per cent) of total office stock in India. The commercial office stock, which accounts for the majority at around 70 per cent of the total value of REIT-eligible stock, is estimated to have a total value of USD 44 billion to $53 billion. In retail assets, the estimated value of REIT- eligible stock (completed and under-construction malls) is USD 20 billion to USD 24 billion, with 52 million square feet malls eligible for REITs.

Nov

- Demonetisation impacted the liquidity in the sector
- RERA rules notified
- Housing prices expected go up by 20 per cent post the announcement of demonetisation

Real estate developers will have to furnish additional information regarding the ongoing projects for the benefit of the buyers besides depositing 70 per cent of the unused funds in a separate bank account to ensure their completion. This has been stipulated in the Real Estate (Regulation and Development) (General) Rules, 2016 notified on October 31, 2016 by the Ministry of Housing & Urban Population. Rules have been specified in relation to ongoing projects, registration of projects, registration fees and compounding of punishment.

Oct

- Revenue from Income Declaration Scheme to be spent on infrastructure
- Homebuyers expected to get relief for delay in delivery

On August 31, 2016, the Cabinet Committee on Economic Affairs (CCEA) chaired by the Hon'ble Prime Minister, approved various measures to revive the construction sector. Now, if any arbitration award has gone against the government, 75 per cent of that will be paid upfront into an escrow account even if the award is challenged. Release funds which will be used for clearing bank liabilities and to speed up execution of projects. Government departments and PSUs have been instructed to transfer pending cases to the amended arbitration Act provided the contractor agrees to expedited proceedings.

Sep

- Cabinet approves initiatives to revive the construction sector
- SEBI eases norms for REITs, InvITs.
- List of additional 27 cities under the Smart Cities Mission announced

REITs are allowed to invest up to 20 percent in under-construction assets. Allowed REITs to invest in two level SPV structure through holding company (Holdco), subject to sufficient shareholding in the Holdco and the underlying SPV and other safeguards including REITs to have right to appoint majority directors in the SPVs. Holdco will distribute 100 per cent cash flows realised from underlying SPVs and at least 90 per cent of the remaining cash flows. SEBI reduced the mandatory sponsor holding in InvIT to 15 per cent and rationalised the requirements for private placement of InvIT.

Aug

- Tata Realty to invest Rs 10,000 crore in infra projects
- Rajya Sabha passes bill to tighten noose around loan defaulters

Jan

- Government releases list of 20 smart cities winners
- Ship building gets infrastructure status

Feb

- ECB norms eased for infrastructure firms
- Additional interest deduction for first homebuyers

RBI notified companies in infrastructure sector, non-banking financial companies-infrastructure finance companies (NBFC-IFCs), NBFCs-asset finance companies (NBFC-AFCs), holding companies and core investment companies (CICs) will also be eligible to raise ECB under Track 1 of the framework with minimum average maturity period of 5 years. But this will be subject to 100 per cent hedging. Companies in infrastructure sector, Holding Companies and CICs will continue to have the facility of raising ECB under Track II of the ECB framework subject to the conditionalities prescribed. Under Track III, the NBFCs can raise ECBs for on-lending for any activities including infrastructure as permitted by the concerned regulatory department of the central bank.

Mar

- Real Estate Bill receives President's assent
- Budget 2016 exempts REITS from Dividend Distribution Tax

Apr

- Government's Rs 20,000 crore radial road plan to decongest Delhi
- Italy eyes India's USD 1.2 trillion Smart Cities mission

May

- Real Estate Act comes in force after 8 years
- New RBI caps expected to hit infra projects' funding

Future infrastructure projects will need Rs 11 lakh crore outside the banking system, following the RBI's rules which propose to restrict lending for large borrowers. At the same time, around 57 borrowers might find their future borrowings from banks capped. A report by SBI's economic department said that Rs 41.5 lakh crore is the borrowing limit for borrowers with a credit limit of over Rs 25,000 crore. Similarly, the requirement of debt funding for infrastructure projects is estimated to be Rs 22.6 lakh crore. While the new norms cap lending, they seek to move corporates to issue bonds by channelising some money into the bond market.

Jun

- Government notifies new land acquisition policy
- No service tax on purchase of under construction flats

Jul

- Joint Parliamentary Committee on Land Bill gets seventh extension
- Rs 24,000 crore raised as building cess lying idle.

Regulatory update

Union Budget 2017-18[1]

Policy initiatives

- Infrastructure status to Affordable Housing - A much-awaited ask of the sector materialised in this budget. Granting of industry status to affordable housing has been aimed at easing access of funds and more relaxed financing norms
- Foreign Direct Investment (FDI) liberalisation including phasing out of Foreign Investment Promotion Board (FIPB) would encourage enhanced foreign investment into the sector
- Rs 29,043 crore allocated to Pradhan Mantri Awaas Yojana
- 1 crore rural houses will be created by 2019 to provide housing to the homeless and people dwelling in temporary houses
- National Housing Bank to refinance individual housing loans of Rs 20,000 crore

Tax proposals:

Direct Tax

- Holding period for immovable property reduced to 24 months to qualify as long-term capital asset
- Shifting of the base year to compute capital gains tax has been moved forward from 01.04.1981 to 01.04.2001 for all capital assets. This should provide higher cost base and consequently lower tax on sale of immovable property
- Rationalisation of income tax deduction for affordable housing schemes to enhance deduction
- Capital gains tax in the cases of Joint Development Agreements (JDAs), deferred to the year in which the project acquires the certificate of completion
- The deemed rental income incidence on the built up unsold inventory of developers shall apply only 1 year after the end of the financial year in which the completion certificate is attained
- Set off of loss from house property which is let out, against income under any other head has been restricted to Rs 2 lakh

Indirect Tax

- Retrospective amendment to remove service tax incidence on the portion of land for construction contracts

Real Estate Investment Trusts (REITs)[2]

REITs, which raise funds from a large number of investors and directly invest that sum in income-generating real estate properties, are trusts which are listed on stock exchanges so that investors can buy units in the trust. The assets of an REIT are held by an independent trustee on behalf of unit holders.

REITs are similar to mutual funds. While mutual funds provide for an opportunity to invest in equity stocks, REITs allow one to invest in income-generating real estate assets

The investment objective of REITs is to provide unit holders with dividends, usually generated from rental income and capital gains from the profitable sale of real estate assets. Typically, the trust distributes 90 per cent of its income among its investors by issuing dividends.

On 23 September 2016, the Securities and Exchange Board of India (SEBI) in its board meeting held approved certain amendments in the regulations to facilitate growth of InvITs and REITs. These amendments include:

- REITs are allowed to invest up to 20 per cent in under-construction assets
- Allowed REITs to invest in two-level SPV structure through holding company (Holdco), subject to sufficient shareholding in the Holdco and the underlying SPV and other safeguards including REITs to have right to appoint majority directors in the SPVs and Holdco to distribute 100 per cent cash flows realised from underlying SPVs and at least 90 per cent of the remaining cash flows
- SEBI reduced the mandatory sponsor holding in InvITs to 15 per cent and rationalised the requirements for private placement of InvITs
- Several companies will now be able to move ahead with their REITs plans without changing the existing capital structure. Until now, the companies had to dissolve the holding company structure, and bring the existing SPVs under the parent company
- The changes are favourable to small real estate companies as five different companies, with limited number of assets can pool them together for a REITs listing
- Foreign fund managers allowed to act as Portfolio Managers
- SEBI has proposed to provide permanent registration to merchant bankers, investment advisers, research analysts and 8 other categories of market intermediaries for ease of doing business
- Allowing companies to allot more shares for their employees during public offers, SEBI increased the limit for the value of such allotments to Rs 5 lakh, up from Rs 2 lakh under staff quota
- Markets regulator SEBI also allowed foreign investors to own up to 15 per cent stake in domestic stock and commodity exchanges, as against the current policy where the foreign entities could hold only up to 5 per cent stake in an exchange

Indian capital market is eagerly waiting for a REIT listing in FY 2017-18

Cabinet approves initiatives to revive the construction sector[3]

As one of the largest contributors to India's GDP, accounting for around 8 per cent, the construction sector generates the highest level of direct and indirect employment for about 40 million people and creates 2.7 new jobs indirectly for every lakh invested. In recent years, the construction sector has been affected by the large number of projects which got stalled during the period of stagnation between 2011 and 2014 and also, liquidity constraints arising on account of their payments not being released by Government Departments/ Public Sector Undertakings (PSUs) pursuant to the arbitral awards. To address these problems of the construction sector, on August 31, 2016, the Cabinet Committee on Economic Affairs (CCEA) approved various measures to revive the construction sector.

Initiatives by the Government:

- In case of claims where the PSUs/departments have challenged the arbitral award, 75 per cent of the award amount may be paid by the PSU to the contractor/ concessionaire against margin-free bank guarantee
- In case a court order requires refund of money paid by a PSU/Department against a bank guarantee, the amount shall be refunded by the contractor/concessionaire along with interest
- The promoter cannot make any addition or alteration in the approved and sanctioned plans, structural designs, specifications and amenities of the apartment, plot or building without the previous consent of the allottee
- All PSUs/departments issuing public contracts may consider setting up Conciliation Committees/Councils comprising of independent subject experts in order to ensure speedy disposal of pending or new cases
- PSUs/departments may seek the consent of the contractors/ concessionaires to transfer the arbitration cases initiated under the pre-amended Arbitration Act to the amended Arbitration Act, wherever possible
- Item-rate contracts, may be substituted by EPC (turnkey) contracts, and PSUs/departments may adopt the Model EPC contracts for construction works; and
- Department of Financial Services, in consultation with the Reserve Bank of India, may evolve a suitable one-time scheme for addressing stressed bank loans in the construction sector

Expected benefits of these initiatives:

Financial support and quicker project execution will ensure that the objectives of the government and the industry remain in sync, and that both move forward together. The cascading impact on the economy will be significant.

Stalled projects have a major bearing on debt recovery of the financial institutions, which in turn fuel stress within the financial system by increasing bad debts and stretching the recovery period. The new measures will ensure that the resulting financial stress on the funding institutions is managed to ensure that bad debts are controlled and the funding supply remains healthy. This is possible only when construction loans are recovered in time.

The advisory to switch from item-rate contracts to EPC mode of contracts is being viewed positively. Under the EPC, the entire responsibility of project analysis, investigation, design and construction is given to the project contractor for a lump sum amount achieved through a competitive bidding process. This allows for project implementation to specified standards with a higher degree of certainty related to costs and time. It sets a higher liability and risk on the execution party.

Government departments have been advised to adopt the model EPC which has been designed based on international best practices and clearly outlines the risk and rewards along with ensuring a fair and transparent process through its contractual framework.

This move is expected to kick-start the cash starved infrastructure projects in the country

News updates

2016: A year of policy changes in real estate[1]

The top 10 policy changes in 2016 that affect Indian real estate are: Real Estate (Regulation and Development) Act, 2016; amendment to the Benami Transactions Act; 100 per cent deduction in profits for the construction of affordable houses; interest subsidy for first-time home buyers; change in arbitration norms for construction companies; exemption of service tax for affordable housing construction; DDT exemption for SPVs to REITs. implementation of the Goods and Services Tax structure; demonetisation of 500 and 1,000 rupee currency notes; and status of permanent residency, for foreign investors. These regulations are aimed at boosting transparency in India's real estate sector.

Real Estate Act comes into force after 8 years[2]

The much-awaited and widely acclaimed Real Estate (Regulation and Development) Act, 2016 came into force on May 1, 2016 setting in motion the process of making necessary operational rules and creation of institutional infrastructure for protecting the interests of consumers and promoting the growth of real estate sector in an environment of trust, confidence, credible transactions and efficient and time bound execution of projects.

Parliament passes bill to tighten noose around loan defaulters[3]

The Enforcement of Security Interest and Recovery of Debts Laws and Miscellaneous Provisions (Amendment) Bill, 2016, amends four Acts - the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act of 2002, the Recovery of Debts due to Banks and Financial Institutions Act of 1993, the Indian Stamp Act of 1899, and the Depositories Act of 1996. The bill allows secured creditors to take possession of a loan collateral on default through the SARFAESI Act with the assistance of the district magistrate. The Bill also provides for oversight of the Reserve Bank of India over asset reconstruction companies. It provides for setting up of a central registry that will maintain records of transactions related to secured assets, which will help prevent fraud by providing clear rights over the assets. The bill establishes the supremacy of secured creditors' claim to assets of a defaulter over any other claims including other debts, revenues, taxes, cesses and rates payable to central government, state government or any other local authority.

Budget 2016 clears DDT hurdle in making REITs a reality in India[4]

The government moves to remove dividend distribution tax (DDT) on Real Estate Investment Trusts (REITs). This is expected to offer commercial developers a liquidity option and retail investors an opportunity to participate in the office realty market's growth. Currently, around 229 million sq. ft. of office space in India can be seen as REIT-compliant. The finance minister said that to facilitate investments in REITs, any distribution made out of income of SPV to the REITs and infrastructure investment trusts having specified shareholding will not be subjected to DDT.

First time homebuyers to get additional deduction of Rs 50,000 on interest for loan up to Rs 35 lakh[5]

Additional deduction has been given on interest for loan up to Rs 35 lakh, provided the house value doesn't exceed Rs 50 lakh. A home buyer in India is entitled to claim both the interest and principal components of home loan repayments for tax benefits. Currently interest payable on a 'self-occupied' house is subject to a maximum deduction of Rs 2 lakh under the head 'Income from House Property'. Besides interest, the portion of one's EMI which goes towards principal repayment is allowed to be claimed under Section 80C. This amount can be claimed within the overall limit of Rs 1,50,000 under Section 80C.

Homebuyers may get relief for delay in delivery by builders[6]

The ruling says, under Section 12 (1) (c) of the Consumer Protection Act, irrespective of whether they have filed the case or not, buyers will be eligible for the benefits, according to a National Consumer Disputes Redressal Commission (NCDRC) judgment. Buyers can also now move NCDRC if the aggregate of the value of the goods or services and the compensation claimed in the complaint exceeds Rs 1crore. The commission recently asked Jaypee to pay 12 per cent interest for delaying its Kalypso Court project in Noida. In another order, it also asked Mumbai-based builder Lodha group to refund Rs 1.02 crore to a buyer with 18 per cent interest.

NCDRC on May 6 directed Parsvnath Developers to refund the entire amount paid by around 70 home buyers in its Parsvnath Exotica project in Ghaziabad with 12 per cent interest for failing to complete the apartments on time.

Government's Rs 20,000 crore radial road plan to decongest Delhi[7]

In one of its most ambitious plans to decongest Delhi, the government has come up with a Rs 20,000-crore proposal to build eight radial roads to redirect traffic leaving the city to free up choked roads, improve air quality and reduce accidents.

The radial roads of Outer Ring Road — some of whose stretches will be elevated — will connect to the Eastern and Western Peripheral Expressways. These two ring roads coming up around Delhi will provide alternate routes to traffic not bound for the city. The two expressways are under-construction and highways minister Nitin Gadkari has set a 400-day deadline to complete it.

Government of Goa notifies new land acquisition policy[8]

The state government of Goa notified a new land acquisition policy to acquire land for public projects on priority basis. The policy promises to benefit rural landowners . This policy, notified under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013, provides for procurement of land by way of a deed of conveyance. The market value of land to be procured will be determined by the land rates notified under the Stamp Act as in force in Goa, under sub-rule (3) of rule 4 of the Goa Stamp (Determination of True Market Value of Property) Rules, 2003, without any remission or rebate over the notified rates.

Revenue gained from Income Declaration Scheme to be spent on infrastructure[9]

Finance minister Arun Jaitley said, the success of the Income Declaration Scheme would lead to greater tax compliance and provide much-needed revenue for the government to spend on infrastructure and social and rural economy. The IDS will yield a tax revenue of Rs 29,000 crore, or 0.2% of the GDP.

Italy eyes India's own USD 1.2 tn mission[10]

Claiming to have the largest number of smart cities in Europe, Italy is keen to partner with India in its own initiative for 100 of them over the next 20 years with an investment requirement of over USD 1.2 trillion.

Italy is now looking at partnering for the smart cities to boost its exports to India, that stood at USD 3.6 billion in calendar year 2015, growing by 10.4 percent when compared to 2014.

Shipyard industry gets infrastructure status[11]

The union government has granted infrastructure status to the shipyard industry in a bid to ease its financial stress. With the infrastructure status, the shipyards will be able to avail flexible long-term funding at lower costs.

The shipbuilding industry is a strategically important industry due to its role in energy security, national defence and for developing heavy engineering industry.

Rs 24,000 crore raised as building cess lying idle[12]

The Supreme Court on Friday slammed the Centre and states for doing nothing to improve the condition of poor construction workers despite collecting Rs 24,000 crore as construction cess to be solely spent on workers' welfare. The Centre had informed Parliament in December that states had collected Rs 24,014.51 crore as construction cess till September 30, 2015 but spent only Rs 4,255.57 crore out of it.

Housing prices may go up by 20% post demonetisation[13]

Realtor's body Credai said real estate prices has a chance to rise by about 20 per cent in the next one year post demonetisation as builders go slow on new launches, introduction of the new regulatory bill and higher input cost. New launches are expected to dry up rapidly as realtors adopt a wait and watch approach and customers anticipate a further drop in housing prices. The situation will be aggravated as new approvals will be slow and builders will have to be more compliant with the Real Estate Regulatory Act (RERA) which comes into effect next year. Developers have gone slow on launches in the last few years as sales remain sluggish, inventory piles up, debt levels reach alarming proportions and consumer sentiment remains low.

CPPIB to invest in India's largest realty deal[14]

Canada Pension Plan Investment Board (CPPIB) is leading the negotiation to acquire private equity firm Everstone Group's industrial and logistics real estate development platform, IndoSpace, as part of private real estate investment (REIT). The entire deal is pegged at Rs 15,000 crore. This sale, this sale marks the first successful REIT offering from the Indian subcontinent.

No service tax on purchase of under construction flats[15]

The Delhi High Court has ruled that no service tax can be levied in respect of the agreements entered into between buyers and builders for flats in an under-construction building in a housing project. The order came on petitions filed by several persons who had entered into separate agreements with Sethi Buildwell Pvt Ltd to buy flats in a multi-storeyed group housing project developed by the builder in Sector 76 in Noida in Uttar Pradesh.

Tata Realty to invest Rs10,000 crore in infra projects, launch an InvIT[16]

Tata Realty and Infrastructure Ltd (TRIL) plans to invest up to Rs.10,000 crore in infrastructure projects and launch an InvIT, as it seeks to increase its focus on public works.

The firm intends to build on its infrastructure project portfolio and will invest Rs.9,000-10,000 crore over the next few years in light rail urban transport, airports, highways, roads, and ropeway projects. MIA Infrastructure, promoted by TRIL and French group Vinci Airports SA, is one of three shortlisted bidders for the proposed Navi Mumbai International Airport.

Government releases list of smart cities[17]

Bhubaneswar has topped the first list of first 20 cities that will be developed as Smart Cities, followed by Pune and Jaipur.

Later more cities were added to the list - Agra, Kanpur and Varanasi from Uttar Pradesh and Amritsar and Jalandhar from Punjab, among others.

Buys and ties

2016 was a good year for deal makers with USD 62.5 bn worth of transactions spread across nearly 1,500 deals – a strong 40 per cent y-o-y increase in values was witnessed during the period. One of the key highlights was the resurgence of big-ticket M&A deals which led to M&A values clocking their highest in the last five years. In contrast, PE activity slumped this year and registered its first decline in the last four years over increasing caution in investor sentiments.

2016 did not witness large transactions in the PE space. This was perhaps because the focus for the last couple of years has been on the start-up sector where transaction sizes have been relatively small. With macro-economic factors continuing to be positive and with reforms demonstrating early signs of economic growth, PE monies will shift focus to the consumer and industrial sector to fund both organic growth and consolidation in the domestic industry. PE will perhaps be visualised as an alternative means of financing consolidation for large and select corporates. This may result in the long-awaited big ticket transactions in the PE space.

Some of the significant PE deals - Real Estate

Investor	Investee	% stake	USD million
Brookfield Asset Management	Hiranandani Group-offices and retail space in Powai	100%	1,000.00
Blackstone Group Lp	Salarpuria Sattva Goup - Office park project	N.A.	70.00
Altico Capital and KKR	SARE Homes	N.A.	63.50
Cerestra Advisors Ltd	Alexandria Knowledge Park	100%	59.70
HDFC Capital	Total Environment Building Systems Pvt. Ltd	N.A.	48.00

"Institutional appetite for real estate investments has shown a marked upswing across top tier markets, though the distinction of asset class seems to be driving the risk appetite for transactions. While investments in residential assets continue to be dominated by debt and structured instruments, commercial & developed infrastructure assets are seeing sustained equity interest from global investors & pension funds with increasing investment sizes."

Sumeet Abrol
Partner, Grant Thornton Advisory Private Limited

Some of the significant PE deals - Infrastructure

Investor	Investee	% stake	USD million
IDFC Alternatives Ltd	Bangalore Elevated Tollway Ltd	N.A.	115.38
Paragon Partners	Capacite Infraprojects Limited	N.A.	10.00
Angel investors	iBus Networks and Infrastructure Pvt. Ltd	N.A.	02.20
Angel investors	Green Warriors Pvt. Ltd- Kabadiexpress	N.A.	00.15

Source: Grant Thornton Deal Tracker

Some of the significant IPOs

Company Name	Sector	Equity Offered	Issue Price	Issue size (In Rs Mn)	Issue size (In USD Mn)
L&T Technology Services Ltd	Infrastructure Management	10,400,000	860	8,944	133
Dilip Buildcon Ltd	Infrastructure Management	29,861,976	219	6,540	98

Some of the significant M&A deals - Real Estate

Acquirer	Target	USD million	Deal Type	% Stake	Source
RMZ Corp	Equinox Business Park	353.00	Acquisition	100%	Domestic
Burman GSC	OneHub SEZ project	44.78	Increasing stake to 100%	51%	Domestic
Future Market Networks Ltd	Naman Mall Management Company Pvt. Ltd	N.A.	Acquisition	100%	Domestic
Prestige Estates Projects Limited-Prestige Alta Vista Holdings	Prestige Whitefield Investment and Developers Private Ltd	8.50	Strategic Stake	49%	Domestic
Indiabulls Real Estate Ltd	Indiabulls Properties Investment Trust	N.A.	Increasing stake to 51.18%	4%	Merger & Internal restructuring

Some of the significant M&A deals - Infrastructure

Acquirer	Target	USD million	Deal Type	% Stake	Source
Fairfax India Holdings Corp. and Fairfax Financial Holdings Ltd	Bangalore International Airport Ltd	316.03	Strategic Stake	33%	Inbound
Essel Infraprojects Ltd	Patel KNR Infrastructure Ltd and Patel KNR Heavy Infrastructure Ltd	126.87	Acquisition	100%	Domestic
Cube Highways and Infrastructure Pte Ltd	Western UP Tollway Ltd	88.46	Acquisition	100%	Domestic
GP Group	Gammon Retail Infra Pvt Ltd's - Civil EPC Business	37.80	Majority Stake	75%	Inbound
Ace Urban Developers Ltd	L&T Infocity Ltd	28.80	Majority Stake	89%	Domestic

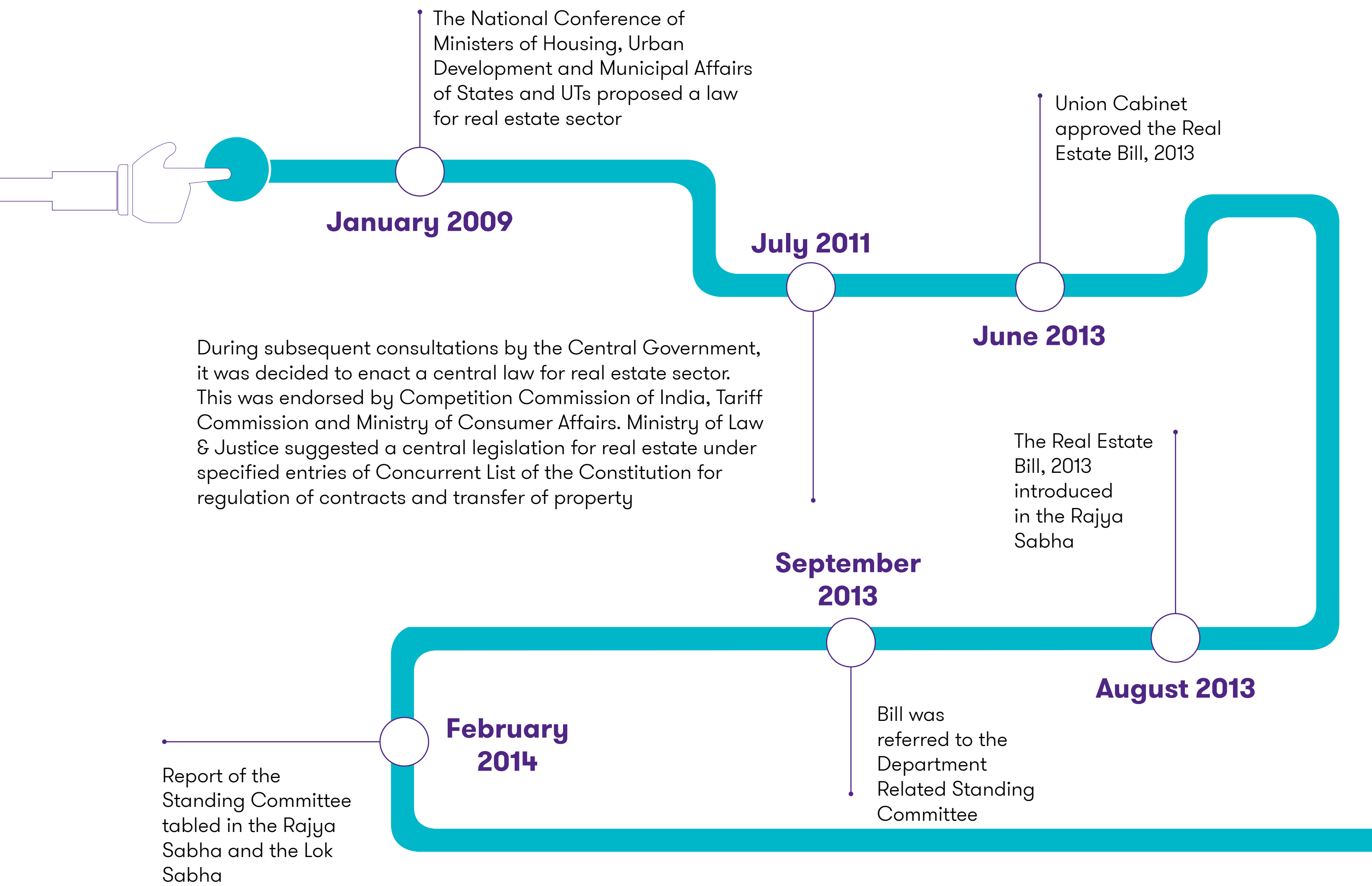
Source: Grant Thornton Deal Tracker

RERA Timeline

RERA journey[1]

The real estate sector plays a catalytic role in fulfilling the need and demand for housing and infrastructure in the country. While this sector has grown significantly in recent years, it has been largely unregulated. There is, thus, absence of professionalism, standardisation and lack of adequate consumer protection. Though the Consumer Protection Act, 1986 is available as a forum to the buyers in the real estate market, the recourse is only curative and is inadequate to address all the concerns of buyers and promoters in that sector. The lack of standardisation has been a constraint to the healthy and orderly growth of the industry.

Therefore, the need for regulating the sector has been emphasised on various forums.



February 2015

Attorney General upheld the validity of central legislation for Real Estate Sector and the competence of Parliament

April 2015

Union Cabinet approved Official Amendments based on Standing Committee Report

May 2015

Real Estate Bill, 2013 and Official Amendments referred to the Select Committee of the Rajya Sabha

July 2015

Select Committee of the Rajya Sabha tabled its report along with the Real Estate Bill, 2015

December 2015

Union Cabinet approved the Real Estate Bill, 2015 as reported by the Select Committee of the Rajya Sabha for further consideration of Parliament

December 2015

Bill listed in the Rajya Sabha for consideration but could not be taken up

March 2016

The Rajya Sabha passed the bill

March 2016

The Lok Sabha passed the bill

March 2016

President of India accorded his assent to the Bill

March 2016

The Real Estate (Regulation and Development) Act, 2016 was published in the Gazette for public information

April 2016

59 Sections of the Real Estate (Regulation and Development) Act, 2016 notified by the Ministry of Housing & Urban Poverty Alleviation on 27 April 2016 bringing the Act into force with effect from 1 May 2016

October 2016-January 2017

- Following Centre's move of notifying the Act, some progressive states have taken up the task of formulating their own rules under the Act since October 2016
- In total, 7 states along with 5 union territories have either notified their own RERA rules or have published draft rules for public comments
- On 17 January 2017, Minister of Housing and Urban Poverty Alleviation Venkaiah Naidu held a meeting with housing secretaries/ chief secretaries of all states and Union territories in New Delhi to address the issue of safeguarding the legislation

April 2017

The Central Government notified the entire Act which came into force on 1 May 2017

Start-ups in the real estate sector[1]

Over the last few years, a slew of start-ups in the real estate sector have tried to transform the property market in India. Plenty of brokerages are trying to tap into the start-up rage. Overall, the focus is to up customer-centricity, solving even the smallest of problems in this space.

High net-worth individuals (HNIs) are increasingly investing in real estate start-ups, hoping that fast growth will lead to high returns. Some of the start-ups that have received funding from HNIs or in the process of doing so include Property Share, NoBroker, home rental and aggregator Zenify, co-working spaces firm Wired Hub and home rental platform NestAway.

With investments varying between USD 25,000 and USD 100,000 (about Rs 1767 lakh), HNIs usually take 2-5 per cent stake at the seed stage. HNIs fall into three broad categories: professionals who have done well in their respective fields, businessmen who have built small and medium businesses and founders of other start-ups who are either successfully running their companies or have sold the firms.

So, what made real estate sector come online?

Indian Real Estate sector is expected to touch USD 180 billion by 2020 with housing sector alone contributing 5-6 per cent to the country's GDP. After assessing the success of e-commerce post 2011, gradually, real estate players started drawing up their strategies for entering this space.

> "The real estate sector is being disrupted globally and in India. Urbantech is a fast emerging area, especially when we see that majority of productive population is shifting to cities. Today, innovation is pushing the envelope and policy/regulatory decisions are being made at a faster pace. With evolving IoT and smart city technologies, urban infrastructure is morphing into a high priority investment area for visionary VCs and private equity players."
>
> **Vidhya Shankar**
> Executive Director, Grant Thornton India LLP

It was all about leveraging the use of technology. The success of Zillow and Trulia in the US created a template to follow for early entrants like 99 acres and CommonFloor, a decade ago in India. This was followed by the launch of many online portals like Housing, PropTiger, Magic and NoBroker.

Cracking the right business model

The biggest pain point while renting, buying or selling a property is the large brokerage that one has to shell out for using the services of the brokers. If you go to the online portals and start searching for flats in any area, you would note that most of the searched results are posted by brokers. Ultimately, you are getting in contact with the same brokers, and have to pay the same brokerage. Some online platforms like Flatmates and Nobroker are working on eliminating the brokerage by removing the interim broker community from the transaction. These platforms are only for owners and end-users. While these two platforms have gained immense popularity, one major drawback is the limited inventory. Also, property owners avoid the trouble of creating listings on multiple portals, and prefer the assurance of a local broker whom they know personally.

Most often we spend hours in finalising some properties online only to discover fake or unavailable listings. Real estate portals are now spending heavily on the verification of the properties. Now they go to the extent of visiting the property before displaying it on their website. All this effort has increased their operational cost, but this is basic hygiene.

Real estate portals are also trying to solve another big pain point of physically visiting and comparing various properties. With real estate portals, one can easily browse thousands of options. Virtual Reality (VR) enabling aerial views, virtual tours, 3-D views, retina etc. is making these platforms, even more engaging.

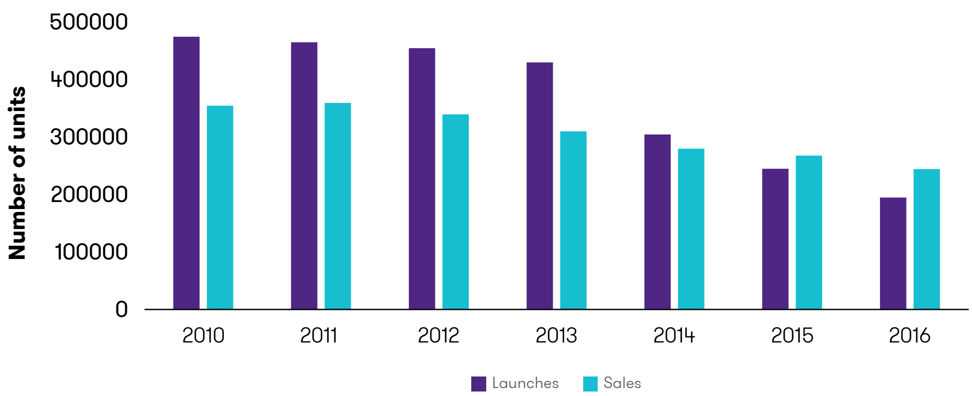
Market trends[1]

Residential market realty trends

Across the eight major markets, the residential market witnessed a jump of approximately 7 per cent in sales from 126,620 units in first half of 2015 to 135,000 in the same period of 2016. With fall in sales volume in Q4 at 40,940 units, the Q4 2016 sales volume is at its lowest quarterly level since 2010. Only 24,300 new units were launched in Q4 2016, which is less than one-fifth of Q4 launches in 2010.

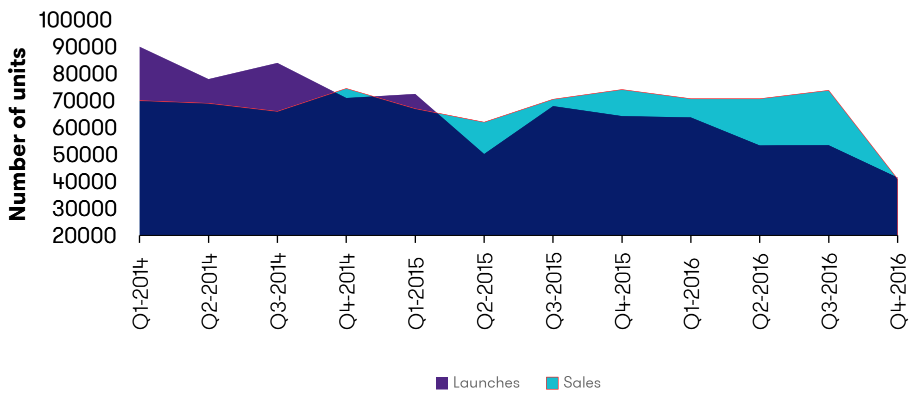
The fall in sales volume and new launches during Q4 2016 brought down the second half of 2016 numbers by 23 per cent and 46 per cent respectively, compared to same period of 2015. H2 2016 reported sales volume and new launches of 109,160 units and 68,700 units, respectively. The same numbers for H2 2015 were 141,340 units and 126,860 units. All markets have witnessed a crash, as a result sales volume in the top eight markets has dropped by 9 per cent in 2016 to 244,680 units from 267,960 units in 2015. The drop in sales volume has resulted in a national revenue loss of more than Rs. 226 billion to the real estate industry across the top eight markets.

Annual launches and sales trend in top 8 cities

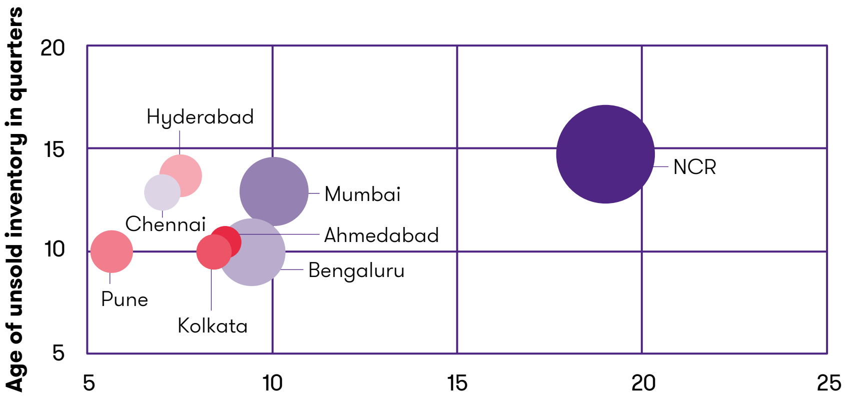


Note: The eight markets are Mumbai, NCR, Bengaluru, Pune, Chennai, Hyderabad, Kolkata and Ahmedabad.

Quarterly launches and sales trend



City-Wise QTS Vs Age of Unsold Inventory Analysis



Note: The size of the bubble indicates the quantum of unsold inventory. QTS is the quarter to sell unsold inventory

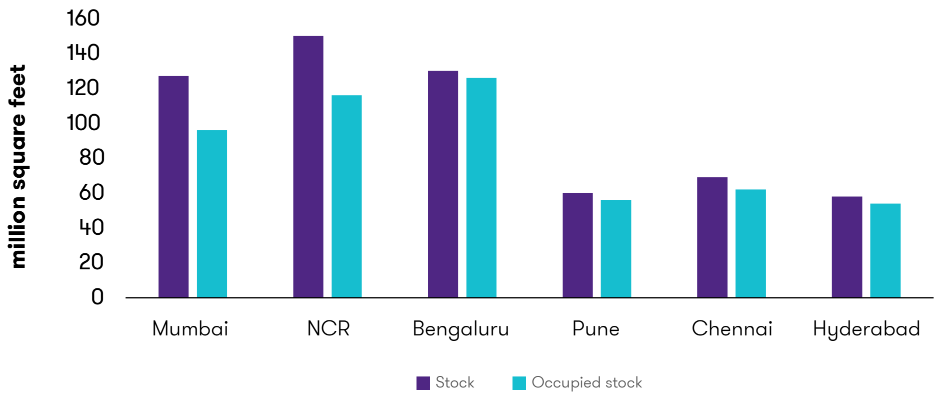
One may note that the oldest and largest inventory stock is in the NCR market whereas Pune's on hand inventory is expected to the sold in the lowest time. The volume of on hand inventory is the lowest in Ahmedabad which is primarily due to the relatively smaller market.

Office market realty trends

In spite of all the challenges, the office market across top markets of India has performed exceedingly well. 2016 ended with total transactions of 40.6 million square feet as compared to 41.1 million square feet of space transacted in 2015. The demand was sluggish due to shortage of good quality space in prime locations of markets such as Bengaluru, Pune and Chennai. The new supply in the six markets of Mumbai, NCR, Bengaluru, Pune, Chennai and Hyderabad was just 29 million square feet versus 35 million square feet in 2015.

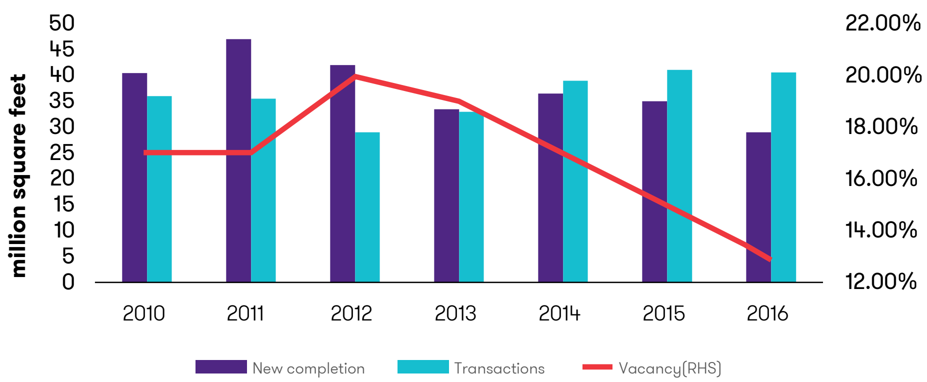
Another major factor in shortage of office space is the vacancy trend. The vacancy was highest at 20 per cent in 2012, as is currently at its lowest i.e. 13 per cent in 2016. The demand for office space in India is enormous from the IT/ITeS sector with nearly half the transactions in H2 of 2016 from this sector. It was followed by other sectors like media, consulting, telecom and infrastructure which cumulatively accounted for 21 per cent.

Office space stock and occupied stock as on December 2016



Note: The top six markets are Mumbai, NCR, Bengaluru, Pune, Chennai and Hyderabad

Yearly new completion, transactions and vacancy level (Top six markets)



The road ahead

Level of urbanisation and housing depicts a nation's economic growth and social well-being. India's urban population is growing at an average 2.1 per cent every year since 2015. It is likely to reach 60 crore by 2031 (up from 37.7 crore today). But the growth in housing has been unable to keep pace. Currently, the housing shortage in India is close to 1.9 crore units. 96 per cent of the urban shortage is faced by the economically weaker sections (EWSs) and lower-income groups (LIGs).

While announcing Union Budget 2017-18, finance minister Arun Jaitley said the government plans to build 1 crore houses for the poor by 2019 along with the allocation of Rs 23,000 crore for Pradhan Mantri Awas Yojana to fulfil its agenda of Housing for All by 2022. Incentives for affordable homes announced in the budget will boost the realty market in cities. The budget has eased rules this year to grant 100 per cent tax exemption on profits from selling flats of 300-600 square feet carpet area rather than the built-up area. This will increase the size of the flats on which a builder can make profits without any tax by 25-30 per cent. While the limit is 600 square feet of carpet area in non-metros, in metros, the limit is 300 square feet.

However, oversupply could be an issue with the government planning to build 20 million houses over the next five years. One way a consumer can make money is by investing early at the allotment stage so that her equity is minimal. The certainty of implementation of the Real Estate (Regulation and Development) Act (RERA) and consumer activism in the form of various protests over timely completion of projects, have pushed developers to focus on completion of existing projects.

Although many forecasters predict a decrease in capital values, we maintain these will remain stable in the primary market. Due to a few distressed deals, the secondary market may see a correction of 5 to 7 per cent in 2017.

In the wake of demonetisation in November 2016, many banks have cut home loan rates to 8.25 to 9 per cent, which is the lowest level in the last eight years. The government has also announced an interest subsidy of 3-4 per cent for first-time affordable housing buyers in 2017.

In addition, while Indian interest rates are at an all-time low, various economists predict another modest cut over Q1 2017, which will further reduce home loan rates and hence, the cost of buying. All these initiatives should help entice buyers back into the residential market.

Further with all the states catching up to meet the deadlines to notified the RERA rules, there is much fervour for the Act that is expected to bring transparency and discipline to the real estate sector. The draft rules have been notified by some states like Uttarakhand, Rajasthan, UP, Gujarat, Maharashtra, Karnataka, Kerala and West Bengal and the centre has notified rules for the Union Territories.

The actual implementation of the Act starts only when states decide to do away with the biggest and greatest hurdle responsible for property delays which is inaction by the authorities. RERA stipulates creation of a single window system in states that will facilitate time bound project clearances and approvals.

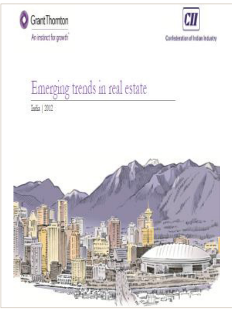
Overall, the Act is expected to bring discipline, stability and order in real estate industry, which heretofore lacked mechanism, processes and strict supervision of any legal authority.

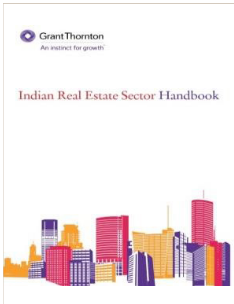
Given the impact of these developments, there is an environment of optimism and the stakeholders are feeling extremely positive (and excited) of the upcoming market trends in the sector.

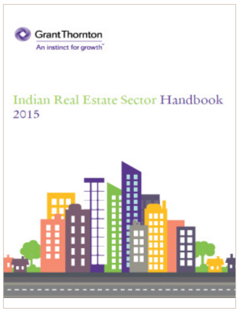
Insights for real estate leaders in India

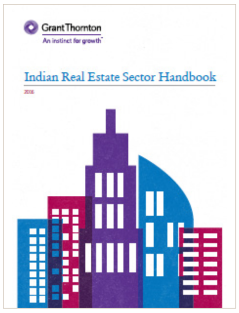
Grant Thornton in India strives to speak out on matters that relate to the success and sustenance of your business. Through our publications, we seek to share our knowledge derived from our expertise and experience. The firm publishes a variety of monthly and quarterly publications designed to keep dynamic business leaders apprised of issues affecting their companies such as:

Annual Handbooks

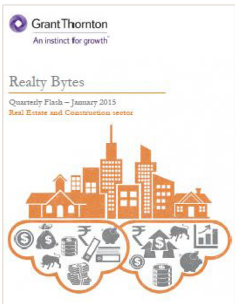


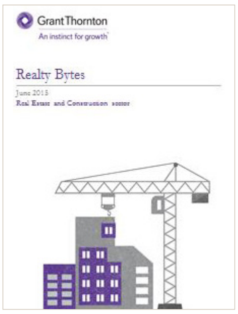


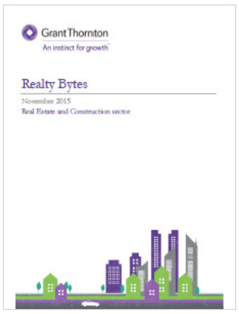


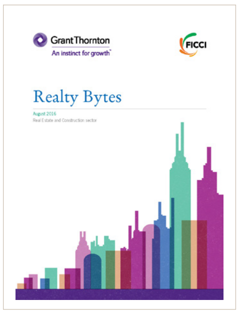


Realty bytes: Quarterly publication on key developments of the sector

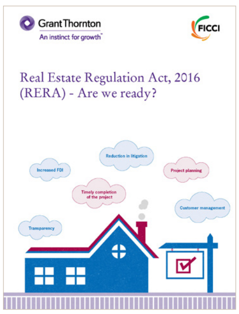


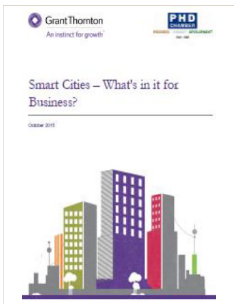


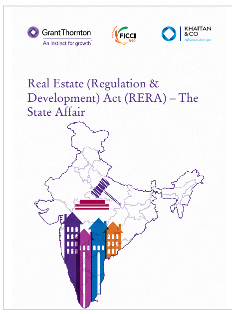


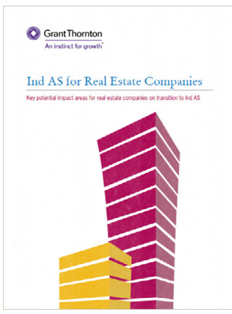


Other thought leadership publications









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