COLLIERS RADAR

RESEARCH | INDIA | 21 DECEMBER 2020

Vaishnavi Bala
Asst. General Manager| Research | India
+ 91 78 9904 5476
vaishnavi.bala@colliers.com

INDIA’S FINANCIAL STIMULI STEERING REALTY

Government reforms and their impact on real estate sector

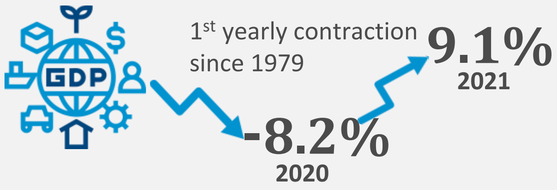
Colliers INTERNATIONAL

Summary & Recommendations

Through 2020, the Union government announced a series of reforms to revitalize the economy and many of these target various facets of the Indian real estate sector, ranging from increasing funds for affordable housing, to incentivizing banks to disburse more housing loans, and removing hurdles to make information technology (IT) firms more competitive. Whilst many of these have achieved moderate success, we propose the following recommendations to achieve sustainable real estate sector growth:

- All government incentives for developers and homebuyers be extended by at least two years, while being tied to the *Housing for All by 2022* scheme.
- Private investors should partner with the Special Window for Affordable and Mid Income Housing (SWAMIH) to provide last-mile funding opportunities.
- State governments should lower circle rates*, which would lower the Stamp Duty for buyers, lower the circle rate-linked Floor Space Index (FSI**) costs for developers and lower overall land and property prices. This would make real estate markets more affordable.

V-shaped recovery

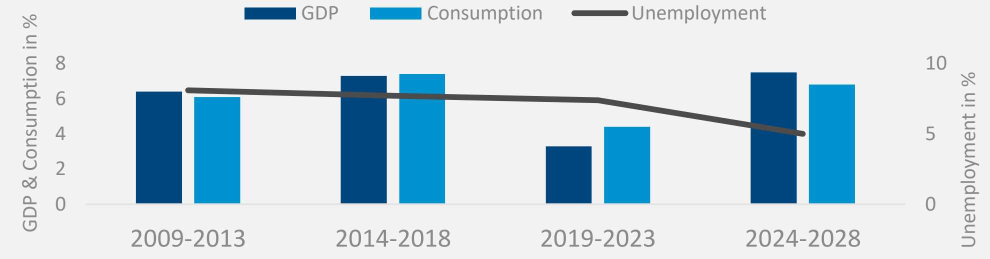


INR 30 trillion (USD393 billion)

Total value of stimulus announced by the Union government and the Reserve Bank of India (RBI) since the pandemic began, accounting for 15% of GDP

Source: Oxford Economics' Country Economic Forecast dated 26 Nov 2020

GDP to stabilise after recouping in 2021



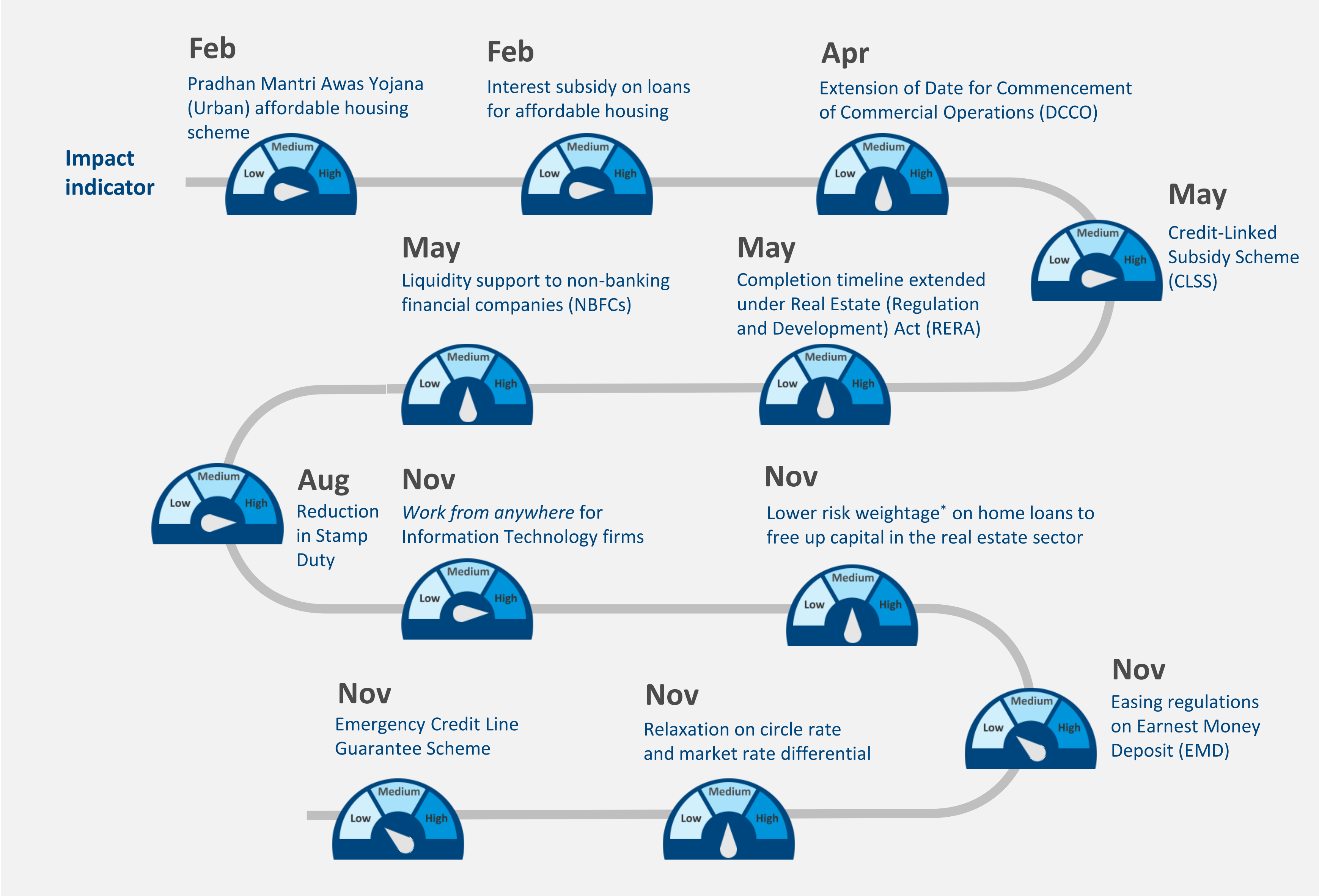
Source: Oxford Economics' Country Economic Forecast dated 26 Nov 2020

Since March 2020, India, like most other countries, has been facing an economic crisis brought about by the pandemic. In response, the Indian government announced a series of stimulus packages to revive the economy, inject liquidity into the market, support agriculture and allied sectors, and support small and medium enterprises. While the government estimates the total package to account[1] for about 15% of gross domestic product (GDP), independent agencies[2] reckon that direct benefits from the fiscal packages account for about 2.5% of GDP.

For the real estate sector, the government has placed immense importance on affordable housing, through its various programmes. While we believe this is a step in the right direction, the sector needs more prolonged reforms to stimulate demand and incentivize developers. In this report, we discuss specific measures that impact the real estate sector and our analysis thereof.

USD1= INR73.7 as on 4 December 2020. 1 sq m = 10.76 sq ft
[1] https://pib.gov.in/Pressreleaseshare.aspx?PRID=1672321
[2] Oxford Economics' Country Economic Forecast dated 26 Nov 2020
*Please see page 11 for the definition of *circle rate*, among other terms.
**FSI refers to the maximum area that can be constructed on a plot of land and is determined by the local government for each area

FINANCIAL RELIEF PACKAGES IN 2020



*Lowering the risk weightage on home loans has the effect of allowing banks to reduce their reserves held against loans in the real estate industry.

1 PMAY-Urban scheme picks up pace to meet *Housing for All* by 2022

Measure:
INR180 billion (USD2.4 billion) outlay for Pradhan Mantri Awas Yojana (Urban) (PMAY-U)[3]

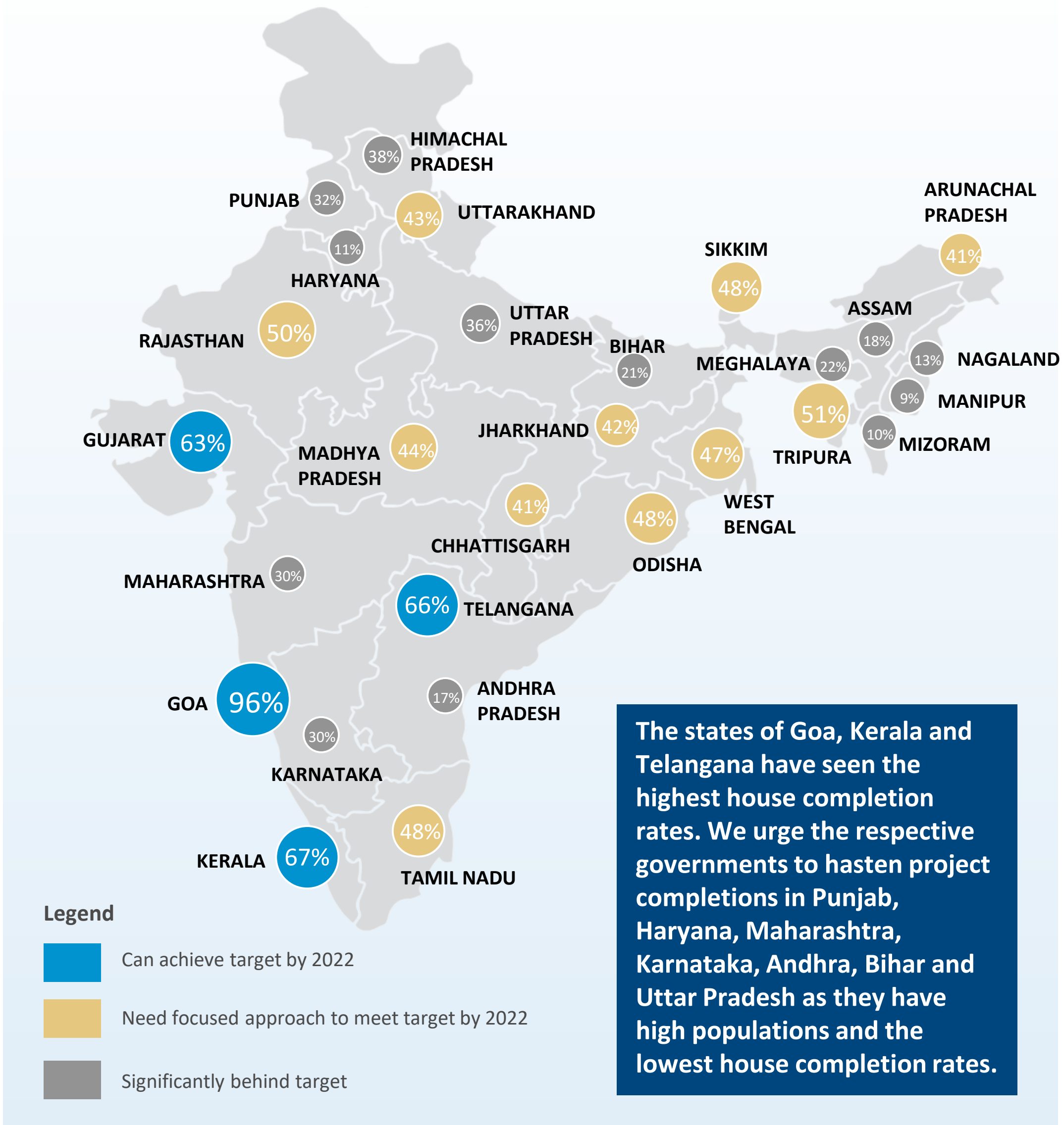
Progress update:
The states of Goa, followed by Kerala and Telangana have seen the highest rate of completion of homes. The states of Haryana, Mizoram and Manipur have the lowest home completion rates.

Per Colliers' analysis of PMAY-U data as of 16 November 2020, only about 12% of the total allocated investment has been released to the states between 2015 and November 2020. During the same time period, about 3.8 million housing units were completed, accounting for about 35% of the total sanctioned housing units, indicating slow pace of construction and delivery. However, if we look at the year-wise progress, the sanction process has expedited since 2018. During FY2019-2020, the number of houses sanctioned is a 15x multiple of that in FY2015-2016 when the scheme was launched.

From a demand perspective too, 2020 has seen slow uptake for such units. In the backdrop of the COVID-19 pandemic leading to an adverse impact on people's economic status, the beneficiaries are struggling to raise the funds to complete the booking process. The pandemic has led to job losses, pay cuts and loss of livelihood leading to financial distress along with difficulty in accessing loans in these circumstances. For instance, as on 21 November 2020, a month after Pune Municipal Corporation (PMC) announced beneficiaries under the scheme, only 241 out of 2,900 could complete the booking process, while others are struggling to pay the initial 10% booking amount.[4] Hence, the PMC is forced to now consider waitlisted candidates.

STATE-WISE PROGRESS UPDATE

Target completion status as on 16 November 2020

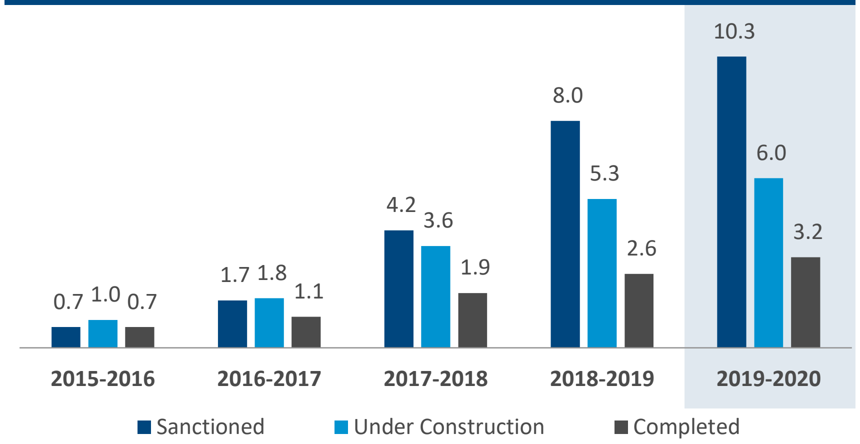


Source: PMAY (Urban) https://pmay-urban.gov.in/covid19/progress/4.pdf , Colliers International

Colliers' View:
Overall, we believe that while PMAY-Urban had a slow start in the initial years, the Union government has realized the importance of the scheme in the assuring the safety, health and well being of its citizens. The government's latest Union Budget, announced in February 2020, represents more than a two-fold rise in outlay from the Union Budget announced in February 2020. The increased allocation ought to create more jobs and improve livelihoods of people. Further, we expect this to have a multiplier effect on the economy by stimulating demand for real estate ancillary industries such as cement, and steel, among others.

PMAY-U physical progress (No. of houses in million)

During FY2019-2020, the number of houses sanctioned is a 15x multiple of that in FY2015-2016 when the scheme was launched.



Source: Ministry of Housing and Urban Affairs, Government of India

We recommend the government consider deferring the timelines for payment of booking amount to provide a buffer to the beneficiaries. This should enable them to complete the booking process and avail the accrued benefit.

[3] https://pib.gov.in/PressReleasePage.aspx?PRID=1672321. [4] www.punemirror.indiatimes.com/pune/civic/too-few-takers-for-pmay-houses-as-beneficiaries-fight-financial-distress/articleshow/79328162.cms

2 Extending incentives for developers and homebuyers to strengthen affordable housing

Measure:
In February 2020, Section 80EEA of the Income Tax Act, offering[5] an additional deduction of **INR150,000 (USD2,035)** on interest paid on affordable housing loans sanctioned on or before 31 March 2020, received an extension by one year to loans sanctioned on or before 31 March 2021. Similarly, the tax holiday to the developers on the profits earned on affordable housing projects approved on or by 31 March 2020 also received an extension of a year.

Colliers' View:
Developers began focussing on the affordable and the mid segments only since 2016, due to slow demand in the high-end and luxury segments. Both tax incentives were envisioned to lend a push to the demand and supply of affordable housing units and help achieve the Union government's target of *Housing for All by 2022*. We believe this piecemeal approach is not desirable since it takes a while to build up a pipeline of new homes.

Given the setbacks received to the real estate industry in 2020, which resulted in slowing down construction and sales, we propose that the scheme be extended by at least another two years and tied to the aim of *Housing for all by 2022*.

3 Extension of interest subsidy on loans: Need for further extension

Measure:
In 2017, the Union government launched the Credit Linked Subsidy Scheme (CLSS) offering subsidized interest on home loans for affordable and middle-income housing. In May 2020, the scheme[6] was extended till 31 March 2021 providing impetus of INR700 billion (USD9.5 billion) to homebuyers.

Colliers' View:
We believe that the extension of subsidized interest rates should bring comfort to those homebuyers who have been unable to purchase their homes.

We propose a further extension of the scheme till the housing market recovers; at least until 2022. However, we believe the strengthening of housing demand ought to hinge upon a revival in the economy and higher employment level.

Credit-linked Subsidy Scheme Eligibility

Income group	Annual household income (INR)	Area (sq m)	Eligible loan (INR)	Interest subsidy	Maximum loan tenure
Economically Weaker Section (EWS)	300,000	Up to 30	600,000	6.5%	20 years
Low Income Group (LIG)	300,000-600,000	Up to 60	600,000	6.5%	20 years
Mid Income Group (MIG) 1	600,000-1,200,000	Up to 160	900,000	4.0%	20 years
MIG 2	1,200,000-1,800,000	Up to 200	1,200,000	3.0%	20 years

Credit-linked Subsidy Scheme Status

Income group	Interest subsidy released (INR)	Beneficiaries covered
MIG	90 billion	429,000
LIG & EWS	189 billion	797,000

Source: PMAY Scheme; Data as on 16 November 2020
*EWS: Economically Weaker Section; LIG: Low Income Group; MIG: Mid Income Group.

[5] https://www.indiabudget.gov.in/budgetspeech.php
[6] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1623862

4 Extension of DCCO provides some breather to developers

Measure:
In April 2020, the RBI allowed NBFCs to extend the DCCO for loans given to commercial real estate by another year, providing relief to commercial real estate developers' cashflows.[7]

Colliers' View:
Extending the DCCO, to which the repayment schedule of an entity is linked, should provide a breather for developers in terms of financial stress and help them better manage cash flows. The resultant shift in repayment schedule cannot be treated as restructuring for commercial real estate projects. This ought to help developers use this relief to plan and alter construction timelines of their ongoing projects.

5 Extension on real estate completion timeline gives a breather to developers

Measure:
In May 2020, under RERA, the Union government provided[8] an extension to real estate completion timelines by six months for projects with a deadline on or after 25 March 2020.

Colliers' View:
The extension of completion timelines under the RERA should provide relief to developers, who have been grappling with stalled construction due to a nationwide lockdown and reverse migration of urban labourers.

[7] https://pib.gov.in/PressReleasePage.aspx?PRID=1615349
[8] https://pib.gov.in/PressReleseDetailm.aspx?PRID=1623663
[9] https://pib.gov.in/PressReleasePage.aspx?PRID=1623601
[10] https://www.financialexpress.com/industry/swamih-fund-sanctions-cross-rs-12000-crore-to-help-complete-81300-houses/2101096/

6 Infusing liquidity to NBFCs should help project completions

Measure:
In May 2020, the government provided liquidity support of INR750 billion (USD10 billion) to mutual fund investments (MFIs), non-banking financial companies (NBFCs) and housing finance companies. This includes a liquidity infusion of INR300 billion (USD4.1 billion) and a partial credit guarantee scheme of INR450 billion (USD6.1 billion).[9]

INR750 billion (USD10 billion)
Liquidity support to MFIs, NBFCs and HFCs

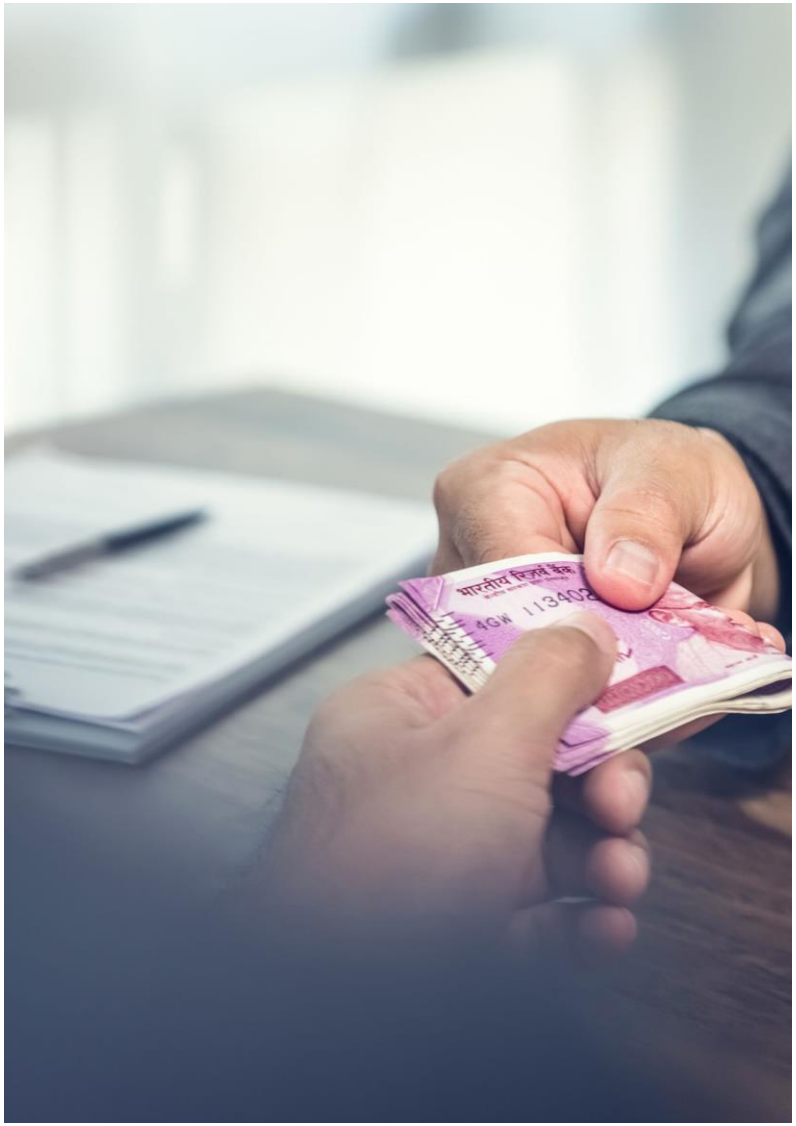
Colliers' View:
Due to the ongoing pandemic, the residential segment has experienced lower sales velocity, leading to near-stagnation. Under this scheme, the government plans to buy the debt of NBFCs and housing finance companies. We believe that this is a step in the right direction, and it should provide the much-needed boost to the ailing residential segment.

Further, we note that Special Window for Affordable and Mid Income Housing (SWAMIH) Fund – the dedicated vehicle to finance completion of stressed projects in affordable and mid-segment housing – that was announced by the government in November 2019 is bearing fruit now. The fund has a target corpus of INR250 billion (USD3.4 billion), targeting to benefit around 458,000 housing units across 1,509 stalled projects. We note that the corpus is likely to be contributed by Union government and other private investors. As on 5 October 2020, the government-backed fund has sanctioned about INR121 billion (USD1.6 billion) to help complete 123 stuck housing projects that should enable the completion of 81,308 houses. Of this, the fund has granted final approval of INR420 billion (USD5.7 billion) for 33 projects involving the completion of the construction of 251,048 houses, while the remaining are under active consideration.[10]

We expect the funding from these measures to enable developers to complete ongoing projects, which in turn should encourage existing home-owners in such projects to make timely payments.

We recommend private investors consider partnering with the SWAMIH fund to participate in the opportunities presented by the fund's last-mile funding strategy.

7 Lower Stamp Duty to enthuse buyers



Measure:

In August 2020, the state government of Maharashtra reduced[11] Stamp Duty on housing units by 3%, effective 1 September 2020 until 31 December 2020 and then raise it by 1% from 1 January 2021 to 31 March 2021, after which it would revert to the normal rates. The state government of Karnataka reduced[12] Stamp Duty on new flats costing less than INR2.0 million (USD27,140) from 5% to 2% and on flats costing between INR2.1 million (USD28,500) and INR3.5 million (USD47,500) from 5% to 3% effective 1 April 2020.

Progress update:

Media reports indicate registrations for property sales in Greater Mumbai more than doubled month-on-month in September 2020. Greater Mumbai recorded 5,600 apartment sales compared to 2,640 registrations in August 2020. The September 2020 property registration were 95% of the registrations in February 2020. Further, property registrations in Maharashtra between September and mid-November 2020 recorded an increase of about 35% YOY.[13]

In Karnataka, property registrations increased by 13% YOY to 180,000 in September 2020. The state revenue from stamp and registration duties during July to September 2020 stood at INR25 billion (USD336 million), registering an increase of 4% YOY. The revenue department collected 75% of the target of INR59 billion (USD802 million) for October 2020.[14]

The Ministry of Housing And Urban Affairs recommended that all states follow Maharashtra and Karnataka states' schemes to boost local real estate markets.

Colliers' View:

We believe these steps have increased affordability for many homebuyers. While this is a step in the right direction and homebuyers across the two states were enthused, we recommend immediate implementation of this measure across all states with a timeframe of at least two years. We expect this to revive the real estate markets, with the state governments likely see a net increase in their revenues even if the rate is lowered. Once that takes place, they should move further to simplify the real estate taxes by subsuming stamp duty into the Goods and Services Tax. We believe that the Maharashtra government ought to reduce construction premium*, as per the recommendations of the Deepak Parekh Committee**.

[11] https://www.livemint.com/news/india/maharashtra-government-slashes-stamp-duty-by-3-until-dec-2020-11598455718485.html
[12] https://timesofindia.indiatimes.com/city/bengaluru/karnataka-govt-cuts-registration-fee-in-affordable-housing-push/articleshow/79202228.cms
[13] https://timesofindia.indiatimes.com/city/mumbai/property-registrations-in-city-double-in-sept/articleshow/78438366.cms
[14] https://timesofindia.indiatimes.com/city/bengaluru/karnatakas-realty-sector-looks-for-cut-in-guidance-value/articleshow/78854430.cms
*Construction premium refers to the charges levied by the government on approvals for various aspects of the land for a real estate project
**Deepak Parekh Committee is a government committee to review existing policies and suggest necessary changes in the infrastructure framework

8 Easing registration and other rules to make Indian outsourcing firms more competitive

Measure: In November 2020, the government eased[15] rules regarding registration, submission of bank guarantees, remote working, and other norms for other service providers (OSP) involved in IT and business process outsourcing (BPO) sectors.

Colliers' View: OSPs include voice and data-based outsourcing services provided by IT-BPO firms. Removal and easing of restrictions ought to increase the ease of doing business and increase the competitiveness of Indian IT-BPO (information technology-business process outsourcing) firms. We envisage this move boosting the start-up culture in the absence of red tape that cost time and money.

With work from anywhere (WFA) becoming a new catchphrase, firms can set up offices in Tier II and Tier III cities and hire locally, driven by a diverse talent pool in such cities which have top-notch educational institutions. We believe that setting up of firms in Tier II and Tier III cities ought to spur the following:

a) Growth of small and medium enterprises supporting core IT firms
b) Better quality office spaces at reasonable rents
c) Improved social infrastructure such as schools and hospitals

We believe that this phenomenon, if sustained over the next five to seven years, has the potential to de-densify the top Indian cities and lead to more uniform urbanization. It gives an opportunity to private developers to develop physical infrastructure and boost the services sector.

Over the last five years, the Union government has undertaken several reforms on the infrastructure side such as 100% electrification of rural areas that was completed in 2018, increasing access to formal banking, increasing digitization, and better transport connectivity. We recommend that the government increase its efforts to improve the quality and adequacy of these initiatives to ensure minimum standards, such as continuous and uninterrupted power. This should allow every employable person across the country to carry out their business efficiently. We expect this will reduce domestic migration, and instead spur demand for real estate locally.

[15] https://www.pib.gov.in/PressReleasePage.aspx?PRID=1670405
[16] https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=11984&Mode=0

Small town advantage?

Cost arbitrage
Real estate and operating costs at least 20% lower in Tier II and Tier III cities

Diverse talent pool
33% of colleges in India are in Tier II and III cities

Low attrition
Doing away with the need for migration coupled with the low cost of living should reduce attrition

Ease of & low cost of living
Low population density in smaller cities improves the quality of life

Source: Colliers International, Zinnov

9 Lower risk weightage on home loans to increase access to capital

Measure:
In November 2020, the RBI rationalised[16] the risk weightage based on the size of the loan and the loan-value ratio for all new housing loans sanctioned up to 31 March 2022.

LTV Ratio (%)	Risk Weight (%)
≤ 80	35
> 80 and ≤ 90	50

Source: RBI

Colliers' View:
This measure lowers banks' requirement for loan provisioning and reduce their overall costs, which can get transferred to customers. This should help to further reduce interest rates on loans, making such loans more attractive to banks. We believe this measure will help boost the number of housing loans disbursed by commercial banks.

10 Relaxation on upfront cash to ease construction firms' cash flow

Measure:
In November 2020, the Union government relaxed[17] regulations on Earnest Money Deposit (EMD) and replaced it by a bid security declaration for government projects. Performance security on contracts was also reduced to 3% instead of 5-10% 31 December 2021.

Colliers' View:
This measure should help construction contractors involved in government housing units to reduce their locked-up capital and use it to speed up the construction and achieve faster or timely completions.

11 Increasing differential values to incentivise developers to lower prices

Measure:
In November 2020, the Union government proposed[18] increasing the differential values between the circle rate and agreement rate from 10% to 20% for primary residential units of up to INR20 million (USD271,370) up to 30 June 2021.

Progress Update:
Increasing the differential values from 10% to 20%, follows the government's decision in February 2020 to increase the differential values between circle rate and agreement rate from 5% to 10%.

Colliers' View:
Overall, we believe this measure, along with lower Stamp Duty should help in offering real estate properties at lower prices and help developers to clear unsold inventory, especially in cities such as Mumbai and Delhi-NCR, which have very high unsold inventory. We believe developers should be able lower prices without having to worry about their tax outgo in locations where circle rates are higher than market prices.

We recommend that the government extend the timeline till 2022 to clear unsold inventory and unblock capital. Also, we urge state governments to lower circle rates to lower the cost for buyers (Stamp Duty) and lower FSI costs for developers (linked to circle rates) which will lower overall land and property prices.

12 Extension of emergency credit line guarantee scheme to help completion of real estate projects

Measure:
In November 2020, the Union government extended[19] the Emergency Credit Line Guarantee Scheme (ECLGS) to 26 sectors, as identified by the Kamath Committee, to 31 March 2021. The scheme, with an overall credit line of INR3.0 trillion (USD41 billion), to provide collateral-free, additional credit at capped interest rates to firms in sectors such as construction, real estate, power, steel, hotels, tourism.

INR3.0 trillion (USD41 billion)
Collateral-free credit to 26 sectors

Progress update: The original package was announced by the government in May 2020 to mitigate the distress caused by the pandemic-induced lockdown by providing credit to different sectors. The original ECLGS had one year of moratorium and four years of repayment, with the government announcing one year moratorium and five years of repayment under the updated scheme.

Colliers' View:
We expect this to help small to mid real estate developers in completion of projects that have been stuck since the beginning of this year, and to provide some solace for related sectors such as cement and steel, amongst others. Overall, we believe that the government has taken steps in the right direction to stimulate demand for the sector and giving some relief to developers. However, for a meaningful gain, aspects such as a simple taxation system for home purchases by subsuming taxes under the GST, better enforcement of Real Estate Regulatory Authority, introducing single-window clearances for affordable and industrial projects should be looked at. We believe that financial institutions such as NBFCs and private-equity companies have supported growth in the sector. However, an improvement in enforcement of contracts should improve confidence among lenders and bring in increased capital from a variety of sources.

[17] https://pib.gov.in/PressReleseDetailm.aspx?PRID=1672636
[18] https://pib.gov.in/PressReleasePage.aspx?PRID=1672321
[19] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1676184

DEFINITIONS

Affordable Housing

Per the Indian government, affordable housing is defined as housing with a carpet area (primarily the net usable floor area of a dwelling) of 60 sq meters (646 sq feet) in metropolitan regions and 90 sq meters (970 sq feet) in non-metropolitan regions, with an upper price limit of INR4.5 million (USD61,060).

Circle Rate

Circle Rate, defined by the respective state governments, is the minimum price at which a property is registered during a transaction. These rates are an indicator of likely prices of properties in the respective localities and are routinely updated by the government. During a transaction, the property is registered either on the actual transaction value or the government's circle rate, whichever is higher.

OSP

Other Service Provider is a company that provides information technology-enabled services such as business process outsourcing, call centers, tele-banking.

Risk weightage

Risk weight refers to the percent of the disbursed loan set aside by a bank as loan provisioning, for disbursing the loan, as stipulated by the RBI.

Sources: Colliers International, https://www.livemint.com/Money/7skwmKE4qy5n7vdmrZfGuN/Understanding-the-role-of-circle-rates.html , https://www.indiabudget.gov.in/doc/bspeech/bs201920.pdf , https://corporatefinanceinstitute.com/resources/knowledge/deals/earnest-money/ , http://ospconsultants.com/dot-osp-license/why-osp-license-is-required/ https://www.business-standard.com/article/pf/what-is-risk-weight-111042200108_1.html , https://censusindia.gov.in/2021-Census/Circular-2-2021.pdf

Primary Authors:

Vaishnavi Bala
Assistant General Manager | Research | India
+91 78 9904 5476
vaishnavi.bala@colliers.com

Diksha Gulati
Manager | Research | India
+91 77 0090 1826
diksha.gulati@colliers.com

For further information, please contact:

Sankey Prasad, FRICS
Chairman & Managing Director | India
+91 98 4526 8442
sankey.prasad@colliers.com

Siddhart Goel
Senior Director | Research Head | India
+91 99 2048 8448
siddhart.goel@colliers.com

About Colliers International

Colliers International (NASDAQ, TSX: CIGI) is a leading real estate professional services and investment management company. With operations in 68 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 25 years, our experienced leadership, owning approximately 40% of our equity, has delivered compound annual investment returns of almost 20% for shareholders. In 2019, corporate revenues were more than $3.0 billion ($3.5 billion including affiliates), with $33 billion of assets under management in our investment management segment. Learn more about how we accelerate success at corporate.colliers.com, Twitter or LinkedIn

Copyright © 2020 Colliers International

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.