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CONTENTS

EXECUTIVE SUMMARY

The year of action – GST and RERA both come into force

If 2016 was a year of announcement of legislative reforms, 2017 has been the year of implementation. In the last few months, the real estate sector has seen two major reforms come into force – the Real Estate Regulatory Authority (RERA) and the Goods and Services Tax (GST). The journey of moving towards a single tax system has not been particularly smooth. Issues regarding its structure, tax bracket and subventions for states that may face revenue losses, surfaced. While a landmark tax such as the GST is expected to have far-reaching implications for sectors across the economy, its impact on real estate as a whole is likely to be a mixed bag.

The complete impact on construction costs is likely to unfold over the coming months. However, aligning with the "Housing for All by 2022" vision, projects launched under the Pradhan Mantri Awas Yojna (PMAY) have been kept out of the purview of GST. For under-construction properties, the government has allowed one-third of an apartment cost to be deducted towards the transfer of land and GST at the rate of 18% to be paid on the balance amount, which brings the effective GST rate on under-construction properties to 12%. While occupation costs are likely to inch up marginally as the 15% service tax has been replaced with an 18% GST; completed properties as well as rented apartments have been kept out of the purview of the GST. Although one may argue that GST works best in an organised economy, where the supply chain is streamlined and value additions at each step are clear, implementation of GST could be the first step towards India's economy becoming more organised. Undoubtedly, there will be short-term disruptions, but in the long-term, it is likely that the benefits of efficient supply chains and lower compliance costs will eventually trickle down to make the reform the "shot in the arm" for businesses in India.

The other big reform – RERA, came into force on 1st May, 2017. However, as on 30th May, 2017, only 13 out of 28 states in India (Jammu and Kashmir excluded) have notified their draft guidelines. Further, there is still ambiguity surrounding the timeline of RERA implementation, as not all the states have finalized their rules. Project launches have slowed down, as developers are facing some teething issues while adjusting to the new regulatory regime and understanding its nuances. Buyers continue to remain in a 'wait and watch' mode, as they are likely to opt for RERA compliant/registered projects. Given the current market situation of subdued demand, it would be interesting to see how different stakeholders of the housing ecosystem cope up with this new operating environment.

Real Estate in 2020 – Trends that will define realty by 2020

OFFICE

With innovative technologies such as artificial intelligence, big data, data science, etc. being adopted by corporates, mundane/back-end and regular business processes are becoming increasingly automated. Additionally, data analytics is now emerging as a key factor in determining how technology can be leveraged to improve business operations – with analytics itself requiring an increased use of these new technologies. However, employee movement caused in the short-term due to the usage of these technologies is expected to be covered up by the creation of new jobs, which will arise as a result of these evolving technologies. Another trend that is likely to become more dominant is the usage of innovative workplace strategies, as there is an inclination of occupiers to shift from exclusively focusing on cost management and space efficiency to also looking at talent retention. This would result in wider adaptation of workplace strategies that align company goals with real estate needs by choosing workplace location and design to attract and retain talent. It is expected that occupiers will be more "agile" and would focus on 'future proofing their portfolios' – taking real estate decisions while balancing both short and long term corporate needs. Improved transparency in operations is likely to be a by-product of the various legislations (RERA, GST, REIT regulations, eased FDI in construction) that have come into force recently, with the complete impact of these legislations on business operations likely to unfold in the coming years.

HOUSING

2016 and 2017 have been high not only on legislative measures, but have also brought into limelight an important, yet neglected segment - "Affordable Housing". Numerous measures to promote private sector participation have been taken in the past year - such as awarding infrastructure status to affordable housing, 100% deduction on profits for affordable housing projects, increasing the livable area of the units and relaxed completion timelines, amongst others. However, despite these measures, the segment needs a stronger thrust, in order to be completely viable for private participation. Availability of land, relaxation in development norms, faster approvals for affordable housing projects, better alignment between central and state policies are some of the factors that need to be addressed to allow the segment to achieve its full potential. As these gaps are plugged in, trends such as use of technology to rationalise construction costs, access to formal sources of capital, wider funding avenues, entry of credible developers are some key trends that will define the segment by 2020.

RETAIL

While the traditional gateway cities of Delhi NCR and Mumbai have been at the core of retail activity, lately cities such as Bangalore, Hyderabad, Chennai and Pune have also seen robust retailer interest. The southern cities, especially Bangalore and Chennai are likely to witness strong supply and both the cities together, are expected to have a share of 30% in the overall retail stock by 2020, compared to around 23% currently. Irrespective of any key market trend seen in the near future, quality will continue to remain the overriding theme. Precedence of this can already be seen in developed retail markets such as the US, which are beginning to witness an impact by the growing popularity of online retail. However, quality malls even in these markets are likely to survive, and outperform. Placemaking will be at the core of these well-performing malls, as a mall is no longer seen as just a shopping destination, it involves eating out, entertainment, fitness centres - all businesses that face less risk from e-commerce than traditional tenants. With online retail becoming a larger reality, occupiers are devising strategies to weave in this medium of shopping into their existing business models.

Retailers are adopting the omni–channel strategy with services such as buy online and collect in store, customer returns and refunds for products bought online, and providing store kiosks for browsing and making payments. As convenience becomes an overriding theme, retailers are reversing the shopping trend. Instead of shoppers visiting stores for purchases, stores are being set up where consumers spend a lot of time. As a result, transit oriented developments, mixed use formats, larger retail components in office buildings are few formats that will witness more prominence by 2020.

WAREHOUSING

With the entry of global players across segments and increasing awareness of domestic players, there is a need for better quality of warehousing spaces which align with global benchmarks. The government's initiatives to streamline the logistics ecosystem has resulted in India being ranked 35, out of 160 countries on the 2016 World Bank's Logistics Performance Index (up from 54 in 2014). The implementation of GST will be the overarching theme for warehousing and logistics activity in the coming years, as the tax is likely to result in the emergence of a more consolidated market, where warehousing architecture would be dictated by efficiency. With the government keen on giving manufacturing the long deserved thrust, it is likely that demand from the segment will pick up pace. Warehousing footprint will not only be dictated by domestic demand, but will also be governed by regional opportunities. As India gets ready to play a larger role in the global economy, these opportunities are expected to gather momentum, due to an increasing trade with Asian and global economies. The sector is likely to witness the inflow of more institutional funding and formal sources of capital, along with the entry of national level/credible players. As national players with larger warehouses emerge, deployment of capital in these fewer, better quality assets is likely to become easier.

SETTING THE STAGE – POLICY REFORMS TO USHER IN A NEW OPERATIONAL ENVIRONMENT

Policy reforms have been at the core of the government's agenda, as is evident from the numerous breakthrough reforms that have been approved and implemented in the past two years. Two reforms that will specifically have a bearing on the real estate sector and its ancillary industries are the GST and RERA. In the following sections, we will discuss the likely impact of these reforms on the real estate sector.

GST and Real Estate – Joining the Dots

The Goods and Services Tax (GST) has finally become a reality, close to one and a half decades after it was first proposed. The journey of moving towards a single tax system has not been particularly smooth. Issues regarding its structure, tax bracket and subventions for states that may face revenue losses, surfaced. Despite these challenges, the determination of the government to implement GST showed result as 1st July, 2017 was the date when the GST finally came into force.

Way Forward

RESIDENTIAL SEGMENT	
Construction Costs	A vast majority of construction materials have been placed in the 28% tax slab (slightly higher than current tax rates), hence the cost of internal fittings such as ceramic articles, tiles, granites, might be impacted; however, the actual impact of the change in taxation will unfold in the coming months. An exception to this will be residential projects launched under the Pradhan Mantri Awas Yojna (PMAY), which have been exempt from the ambit of the GST.
Under-Construction Properties	Under GST, an under-construction property is covered under works contract and classified as a service. The GST Council has decided to tax construction of a complex, building for sale to a buyer, wholly or partly, at 18%. However, the government has allowed one-third of an apartment cost to be deducted towards the transfer of land and pay GST at the rate of 18% on the balance amount, which brings the effective GST rate on under-construction properties to 12%. The Council has allowed for 100% Input Tax Credit (ITC) on the raw materials and services used for such construction activity. This will encourage transparency, increase tax compliance and reduce dependence on cash because the ITC can only be availed if raw materials are sourced from GST registered vendors. However, the sector might take its own time in adjusting to the new guidelines, given the extent of the unorganized segment in the industry.
Completed properties	Since completed and ready to move in properties cannot be classified as a service, both have been kept out of the purview of GST. Stamp duty and registration charges have also been kept out of the ambit of GST.
Residential rented apartments	Rental income from residential properties used for residential purposes would continue to be exempted under the GST regime. Such properties were also exempted from service tax previously.

OCCUPATION COSTS FOR LEASED PREMISES

Leasing of commercial, retail and warehousing properties has been put in the 18% tax slab, as compared to the current service tax of 15%. This is likely to increase the occupancy costs for occupiers in these segments.

WAREHOUSING SEGMENT

As GST becomes a practice, the Indian warehousing sector is poised for structural changes in its operational dynamics. The current system of interstate taxation in India results in space take-up being dictated by lower taxes (rather than operational efficiencies) as well as the domination of the warehousing sector by a large number of unorganised players. Post the GST, the focus of players is likely to be on supply chain efficiencies, which will result in consolidation of warehouses and entry of national-level/credible players.

RETAIL SEGMENT

For the retail segment, GST implementation is likely to be a mixed bag. Some categories such as FMCG, affordable end of the apparel and footwear category and luxury cars are likely to benefit as the GST rate for these categories are lower than the existing taxation rates. For certain other categories such as furniture, consumer electronics, etc. there is likely to be a slight increase in cost as the GST rates for these categories are marginally higher than the current rates. On an overall basis, the implementation of GST would lead to rationalization of tax at different levels, reduce compliance costs; thereby, resulting in an improvement in ease of doing business and movement of retail goods.

The government has been very responsive to the demands of various industries and has been continuously reviewing rates (rates for 69 goods were revised downwards in June) post the first announcement of rates in May 2017. While one may argue that GST works best in an organised economy, where the supply chain is streamlined and value additions at each step are clear; however, implementation of GST could be the first step towards India's markets becoming more organised. As a large majority of goods used in the real estate and construction segment are sourced from vendors operating in the unorganised space, identifying value additions at each stage for evaluating input tax credit is likely to be a challenge. While the government has done its best by bringing in the regulation at the right economic cycle (low inflationary period), however, the industry will need some time before it completely understands the implications of the tax rate on operations and compliances. While there will be short-term disruptions, in the long term, the benefits of efficient supply chains and lower compliance costs will eventually trickle down to make the reform the "shot in the arm" for businesses in India.

Real Estate Regulation Act (RERA) – Where do we stand?

The Real Estate Regulation Act (RERA) was finally passed in 2016, thereby meeting a long-standing demand from the real estate industry for having a regulator. RERA was largely created to ensure accountability towards allottees and protect their interests and establish symmetry of information between the promoter and allottees. The Act came into force from 1st May, 2017. However as on 30th May, 2017, all Union Territories (UTs) and 13 out of 28 states in India (Jammu and Kashmir excluded) have notified their draft guidelines. Out of the remaining 15 states that are yet to notify the Act, West Bengal and Punjab have notified their guidelines, but there is still no clarity on the date of implementation. Along with Tamil Nadu (the state remains in the grey area as it has drafted the guidelines, but has not yet notified the union government), 12 other states are still in the process of drafting their guidelines.

What happens post the implementation of RERA in a state?

Post implementation of the Act, all promoters/developers are required to register their ongoing and new projects with RERA by 31st July, 2017. Given the current market situation of subdued demand, it would be interesting to see how developers cope up with this new operating environment. If developers fail to register their projects before the deadline in July, a 'show cause' notice would be issued basis online complaints from 1st August, 2017.

How are the stakeholders reacting to RERA?

DEVELOPERS

Project launches have slowed down as developers are facing some teething issues, while adjusting to the new regulatory regime and understanding its nuances. Majority of the developers are modifying their business models and construction plans as per the state RERA guidelines and are also consulting legal experts on the penalties imposed in the legislation. As there is significant unsold inventory across cities in the country, which developers are willing to offload at discounts and are even offering lucrative schemes/freebies. Going forward, the Act may also impact the ability of developers to launch or complete large township projects spread across 100 acres or more. These will have to be registered, launched and marketed in phases with only those common facilities which can be completed within the promised timelines.

HOMEBUYERS

Buyers continue to remain in a 'wait and watch' mode and are likely to opt for RERA compliant/registered projects. The caution is further amplified by the non-uniformity of stipulations regarding inclusion of under-construction projects across states, resulting in buyers turning even more vigilant.

GOVERNMENT

There is still ambiguity surrounding the timeline of RERA implementation, as not all states have finalized their rules. Likewise, while restrictions such as "no marketing of projects without registration of projects with RERA" have been put in place for developers, however a non-functional RERA in many states has put developers in a state of flux.

HOW WILL RERA TRANSFORM REAL ESTATE BY 2020?

- The credible, ethical and larger developers are expected to sustain, while few of the smaller ones are expected to exit the market or are likely to be taken over by larger players in medium to long term
- Increased instances of consolidation of players and joint ventures/partnerships in the sector will be seen
- The transparency and credibility of deals will improve significantly with the exit of smaller/non-reputed brokers
- Boost in buyer sentiment and a simultaneous rationalization in home loan rates might trigger end-user driven demand, especially in the mid-segment/ affordable housing
- The overall investor confidence is likely to improve, resulting into an inflow of institutional capital in the medium to long term
- As fund inflows will increase, the cost of capital is likely to rationalize. RERA would reduce the risk perception associated with real estate in India, as it imposes stringent disclosure norms and penal provisions

WHAT'S NEXT FOR INDIA'S OFFICE MARKET

Market overview

India's office market continues to grow from strength to strength. Office leasing activity reached an all-time high of 43 million sq. ft. in 2016, on the back of positive occupier sentiment and strong supply infusion across various cities. While this leasing was dominated by the top three cities of Delhi NCR, Bangalore and Mumbai, however, an interesting trend in recent times has been the re-emergence of Hyderabad as a priority office destination for corporates. Leasing activity in Hyderabad more than doubled in 2016 on an annual basis; driven by a stable political and investment environment, low rentals and release of investment-grade supply in key locations.

Amongst the sectors that have driven office demand in India in the past couple of years, Information Technology (and enabled services) has had a dominant share, followed by Banking & Financial Services, Engineering & Manufacturing and Research & Consulting. E-commerce is another sector that has witnessed strong growth in office space leasing by leading corporates in the past 2-3 years. However, after a spurt in demand in 2015 when its share in overall office leasing reached an all-time high of 6%, the sector has witnessed sluggish activity in 2016 and 2017, as most domestic corporates in this sector are now in a consolidation phase. Demand from shared office format operators has also strengthened in recent times, with leading co-working and business center operators opening facilities across leading markets in India.

The supply of office space is in a transition phase in India, at least in terms of its location; most of the new supply is now concentrated in the peripheral/suburban/decentralized locations across cities. The country has witnessed the release of more than 100 million. sq. ft. of new supply in the past three years, mainly in decentralized locations in cities such as Hyderabad, Mumbai and Bangalore. As availability of ready to move in space dips across most centralized or core locations, rental values (and consequently over-all occupancy costs) continue to rise, bolstering occupier focus towards decentralized locations or shared office formats.

Another critical point of reckoning for India's office market in recent times has been the kind of disruptions being witnessed in the IT/ITeS sector. Modifications in the H-1B visa regime proposed by the new US government, increased protectionism impacting the growth of outsourcing to India, the rising automation of processes – all of which are likely to lead to a subsequent slowdown in projected demand. Being a flagship industry, disruptions in the same are expected to trickle down to the office real estate sector as well. For those who will get impacted by the proposed changes, a certain degree of reverse migration to India is expected. Given their skill set, this might contribute to the entrepreneurial evolution that the country is experiencing, particularly from the perspective of its start-up culture and thus, boost office space demand.

Additionally, the sector continues to be attractive from an investor perspective, with many stakeholders having invested in well-leased, completed commercial assets in the country during the last few years. The rising PE investment coupled with the country's first REIT listing expected in the coming months, is likely to result in an improved investor sentiment towards India. This is expected to remain stronger than ever, particularly in the case of the office segment.

Trends that will define the office market by 2020

The office market will continue to evolve over the next three years. However, in the coming years, the following themes would play a large role in the sector's dynamics:

1 ADVENT OF TECHNOLOGY

With new and innovative technologies such as artificial intelligence, big data, data science, the internet of things, cyber security and cloud computing, etc. being adopted by corporates, mundane/back-end and regular business processes are becoming increasingly automated. This disruptive impact of technology is not restricted to the IT industry alone, but felt across sectors such as banking, financial services, consulting, analytics, research, engineering and manufacturing as well. Corporates are looking at progressively adopting innovative technologies to streamline their operations, while cutting operating costs.

Additionally, data analytics is now emerging as a key factor in determining how technology can be leveraged further to improve business operations – with analytics itself requiring an increased use of these newer technologies. However, employee movement caused in the short-term would be covered up by the creation of new jobs, due to the adoption of innovative technologies. This in turn, is likely to boost office space leasing in the medium to long term, particularly from the knowledge based, software and research and development segments.

Moreover, given the scaling up of talent, India is moving towards having a cost advantage not only in back-end processes, but also high-end processes which require a certain degree of talent - especially other industry sectors such as engineering and manufacturing. Consequently, various corporates belonging to sectors like manufacturing, engineering, financial services, investment banking, consulting, etc. are looking at ramping up their India operations.

2 GATEWAY VS GET-AWAY

Historically, the top-tier gateway cities such as Bangalore, Delhi NCR and Mumbai have appealed to occupiers for their deep labor pool, availability of investment-grade space, client access and major transit options. Alternate cities such as Hyderabad, Chennai and Pune (even Kochi and Ahmedabad) have now begun to offer quality talent and attractive/affordable real estate options. The dynamics in both types of cities are changing, with corporates now looking beyond the top cities, for future expansion plans. It is anticipated that the cost arbitrage along with the growing talent base in the alternate cities would further attract occupier interest and result in their increased share in total office space leasing by 2020.

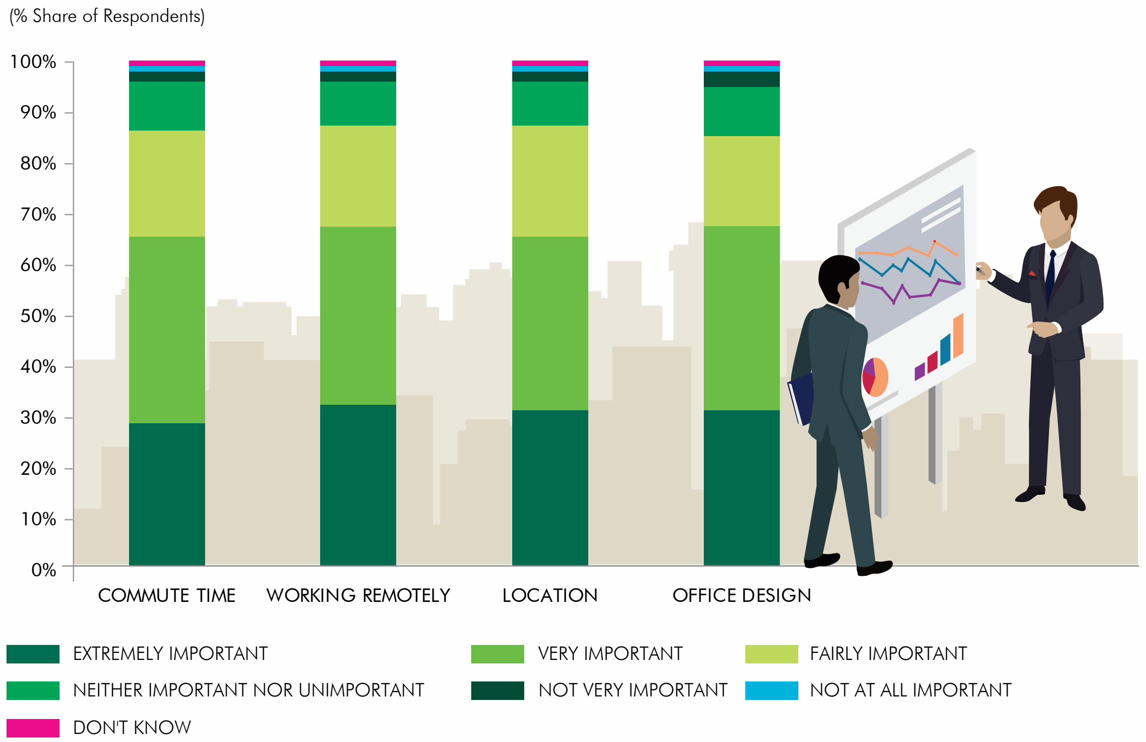
3 RISING AGILITY

Occupiers, while continuing to expand or consolidate their operations in India, have become increasingly cautious, while deciding their real estate footprint. This cautious sentiment, in turn, has resulted in rising agility across all aspects of office space requirements: space usage, workplace design, leasing structures and even location. By 2020, occupiers would focus even more on 'future proofing their portfolios' – taking real estate decisions keeping in mind the changing nature of both short-term and long-term corporate needs. With evolving business processes and flexible employment requirements, the 'gig' employees are expected to be a larger part of the workforce. The temporary nature of these employees coupled with the 'work from anywhere' policies and rising agility would also result in augmented demand for shared office spaces (especially co-working spaces) in the coming years.

4 INNOVATIVE WORKPLACE STRATEGIES

There is an increased inclination of occupiers to shift from exclusively focusing on cost management and space efficiency to also looking at talent retention. This would involve incorporating workplace strategies that align company goals with real estate needs by choosing workplace location and design to attract and retain talent. Thus, activity-based work places which are flexible and can enhance employee performance are increasingly becoming a vital component of workplace strategies. Till date, placemaking has been largely applied to retail space – involving emphasis on creating environment to attract footfalls. However, with increasing agility in the employee mindset, occupiers are expected to focus on creating an environment contributing to a work-life balance. As per the findings of our Millennial Report, factors such as office location, commute time, flexibility to work remotely and office design are equally important for millennials, while selecting a new job.

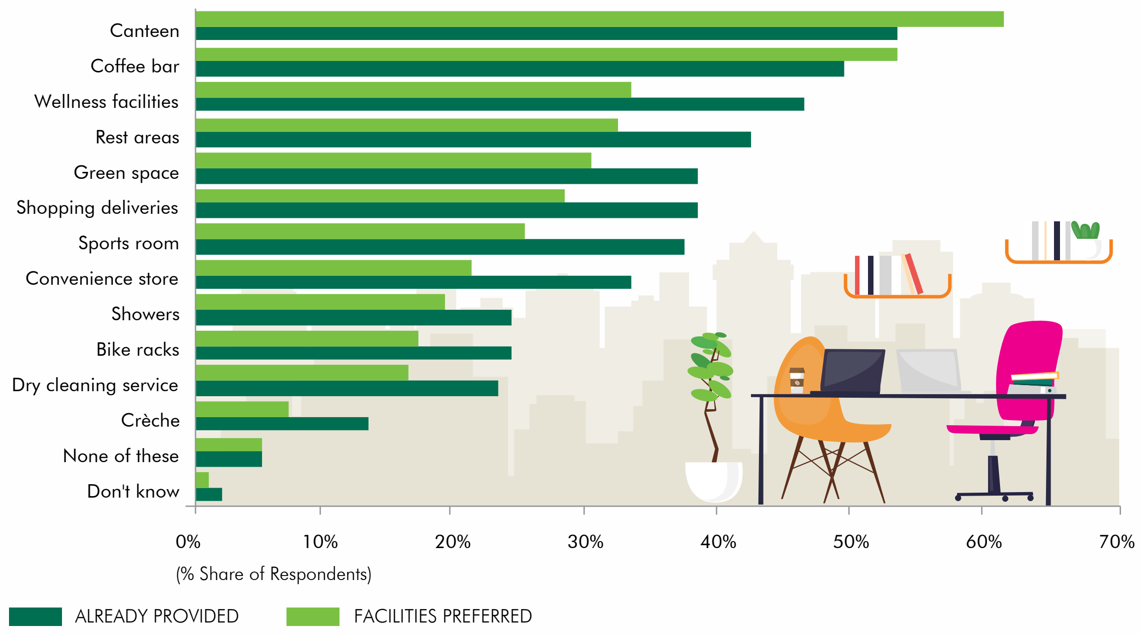
CHART 1: MILLENNIALS IN INDIA: FACTORS FOR NEW JOB SELECTION



Source: Asia Pacific Millennials: Shaping the Future of Real Estate - Millennials in India, CBRE Research, November 2016

By 2020, more importance would be given to 'health and wellness' services (such as fitness centers, rest areas, green spaces etc.) and 'work life integration services' (such as child day care centers etc.) while deciding office space requirements. As per our Millennial Report, both these services i.e.: 'health and wellness' and 'work life integration' would attract millennials and should thus, be provided in the workplace by corporates. Workplace strategies would hence, be altered to cater to the requirements of both occupiers and employees equally, in times to come.

CHART 2: MILLENNIALS IN INDIA: PREFERENCE OF OFFICE FACILITIES



Source: Asia Pacific Millennials: Shaping the Future of Real Estate - Millennials in India, CBRE Research, November 2016

With occupiers' workplace strategies evolving at such rapid pace, the landlord-tenant relationship is also expected to evolve – the landlord would pay more attention to occupier's needs, while launching new projects. This would also result in rising instances of office-cum-retail structures which would both attract and retain talent. Co-working space in particular is also expected to act as a key 'differentiator' to attract talent, especially the millennials. It is expected that with occupier focus on business operations over real estate decisions, increasing occupier awareness of co-working as an alternate option, the rising acceptance of 'remote' working and an increased preference towards flexible leasing terms will be factors that will drive demand for co-working spaces. In fact, it is estimated that as office rentals continue to inch up across India, the total space leased by co-working operators in tier I and tier II cities is expected to be almost 6 - 10 million sq. ft. by 2020.

5 INCREASED TRANSPARENCY

It is anticipated that with the implementation of RERA and future REIT listings, there would be a paradigm shift in the mindset of the global investor. The risk associated with Indian real estate is likely to reduce given that only leading, trustworthy developers with proven track records would be operating in the coming years. Over the coming years, Indian real estate is expected to become significantly more organised, which in turn would result in wider funding avenues – bringing office assets higher than ever on the radar of both global and domestic stakeholders. With this rising investor interest towards the office segment, it is also expected that a majority of the supply to be released over the next three years is likely to be backed by institutional investors.

MAKING A COMEBACK: AFFORDABLE HOUSING

Affordable housing has been a buzzword for more than a decade now, with successive governments looking to tap this as a medium to bridge the housing shortage gap in India – which stands at about 18 million urban units largely in the low- income and mid-income categories. It saw some concrete interventions by the current government throughout 2016 to propel the critical, but a largely neglected segment. The steps were well-aligned with the government's agenda to accomplish "Housing for All by 2022". Numerous measures to promote private sector participation and encourage buyer sentiment in the affordable housing segment have been taken in the current and the past years - such as providing infrastructure status to affordable housing, 100% deduction on profits for an affordable housing project, increasing the livable area of the units and relaxed completion timelines (from 3 years to 5 years). On the demand side, measures such as interest subvention of 4% and 3% on loans up to INR 9 lacs and 12 lacs, have also been initiated to spur homebuyer interest.

Promotion and implementation of Pradhan Mantri Awas Yojana (PMAY)

The government's agenda of constructing 10 million homes by 2019 for families living in 'Kucha' houses was realized in the form of Pradhan Mantri Awas Yojana (PMAY) scheme, which was implemented from June, 2015. The scheme originally meant to cover buyers in the EWS (annual income not exceeding INR 3 lakhs) and LIG (annual income not exceeding INR 6 lakhs) sections also included the mid-income group (MIG), with household income up to INR 18 lakhs per annum. The scheme known as Credit Linked Subsidy Scheme for Middle Income Group (CLSS for MIG), will comprise of two slabs, covering anyone with a household income between INR 6 lakhs and INR 18 lakhs per annum to avail the benefits of subsidized loans. The below table highlights the approximate subsidy that would be available to each income category under the CLSS:

TABLE 1: PRADHAN MANTRI AWAS YOJANA CREDIT LINKED SUBSIDY SCHEME

Income Categories	EWS	LIG	MIG – 1	MIG - 2
Annual Income Limit (in lakhs)	3	6	12	18
Interest Subsidy (in %)	6.50	6.50	4.00	3.00
Maximum Loan Tenure (in years)	20	20	20	20
Eligible Loan (in lakhs)	6	6	9	12
Current Interest Rate (in %)	9.00	9.00	9.00	9.00
Interest Subsidy Rate (in %)	6.50	6.50	4.00	3.00
Carpet Area (in sq. m.)	30	60	90	110
Subsidy Amount (Total)	267,280	267,280	235,068	230,156

Source: National Housing Bank, Pradhan Mantri Awas Yojana Credit Linked Subsidy Scheme, 2017

How can Affordable Housing take the leap?

To fast track the pace of affordable housing development, it is imperative that isolated interventions be replaced with a well-synergized approach to address concerns of all stakeholders in the value chain. Although the government has been very proactive in providing incentives for private participation in the segment, especially in the past two years, there are still some steps that can be taken to connect the remaining dots. Some recommendations which will provide a final thrust to this segment are as follows:

EASE OF LAND AVAILABILITY

The government should regularly release land parcels for affordable housing projects, identified within municipal limits and bring more peripheral lands into developable limits of the city authorities.

RELAXED DEVELOPMENT NORMS

Easing FAR and density norms will be critical for the development of affordable housing. Also, the government should review the master plan/zoning provisions on a regular basis, to allow for optimum allocation of land for affordable housing.

INVEST IN INFRASTRUCTURE UPGRADATION

The emphasis cannot be on releasing land parcels only, but focus also needs to be on providing the necessary connectivity and social infrastructure, so as to allow these projects to develop as habitable and vibrant communities.

DEDICATED APPROVAL WINDOW FOR AFFORDABLE HOUSING

Building approval process needs to be streamlined; a separate fast track process needs to be put in place for affordable housing projects. This is critical to limit the gestation period and the associated costs.

SYNCHRONIZE CENTRAL AND STATE POLICIES

There is an urgent need for alignment of state level affordable housing policies with the central government policies to remove ambiguities around availing central incentives, while ensuring compliance with the state policies.

RELAXATION ON REGISTRATION CHARGES AND STAMP DUTIES

To further strengthen the demand for such units, the government should look at rationalizing/waiving off registration charges, as well as stamp duties for affordable housing units.

Trends that will define Affordable Housing by 2020

1 POLICY THRUST TO DETERMINE PACE OF GROWTH

Although the term "Affordable Housing" has been around for many years, the past two years have seen a renewed focus from the government to spur activity in the segment. The government has taken various steps in 2016 and 2017 to ease the supply side as well as the demand side issues impacting the affordable housing sector in India. While these initiatives have done enough to set the ball rolling, however the growth momentum of the sector will be directly proportional to the proactive as well as the reactive pace of the government.

2 CREDIBLE DEVELOPERS TO MAKE INROADS

As of now, affordable housing in India is more of a local game and most of the supply in this category is fragmented and driven by local developers. With the government keen on addressing key concerns such as profitability as well as ticket sizes of affordable housing units, national/regional developers are now keenly evaluating the segment. This is especially relevant in times where affordable housing can serve as a revenue stream in the wake of slower sales in other categories, especially luxury housing.

3 FUNDING AVENUES TO BROADEN

As the sector receives a determined push from the government, it is likely to emerge as the new focus area for housing finance companies. As per CRISIL, the assets under management of affordable housing finance companies are expected to grow at a CAGR of 40% over the next four years, as compared to 17-18% for the housing finance sector, as a whole. With leading housing finance companies already devising roadmaps to tap the sector in the coming years, NBFC's are also expected to make inroads into financing this potent, but underserved segment.

4 INFLOW OF FORMAL CAPITAL

Recently, the trend of private equity players and NBFC's investing in housing finance companies (especially those focusing on the affordable housing segment) has started to pick up. As the sector continues to garner support from various stakeholders in the affordable housing segment, this trend is likely to strengthen in the coming years. The inflow of formal capital is not going to remain limited to the demand side, as the segment will also witness capital infusion on the supply side. With RERA providing the much needed credibility to the residential segment, PE players/ family offices/corporate players/HNI's are likely to increase their participation in the housing as well as the affordable housing segment.

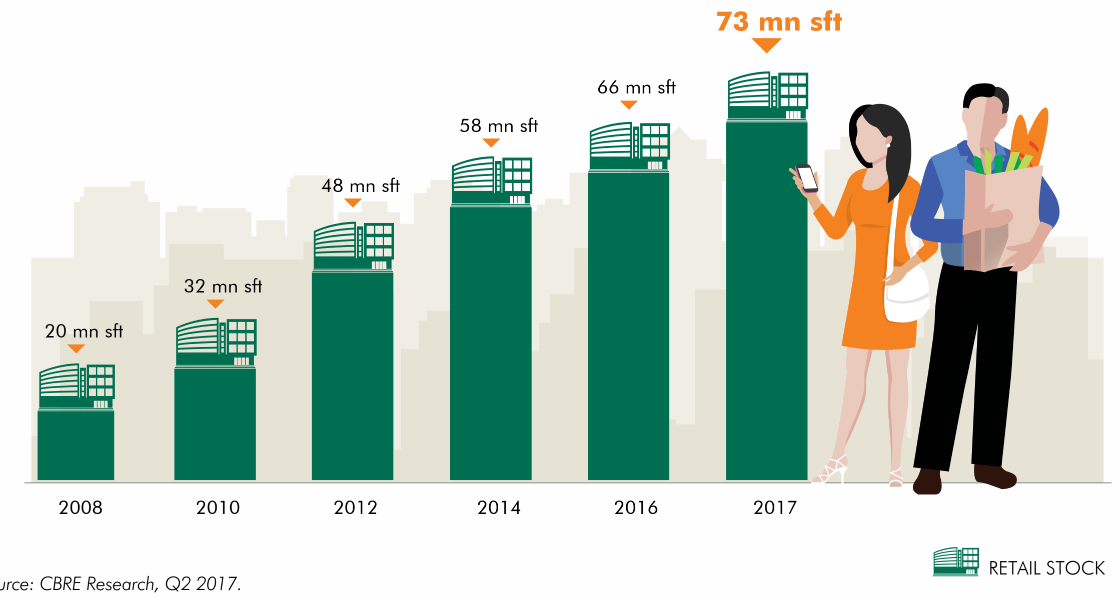
5 USE OF TECHNOLOGY TO MAXIMIZE EFFICIENCY

As mentioned above, the segment has witnessed very limited activity, especially from reputed players. With the expected entry of credible players into the segment, the scope for use of advanced technology and transfer of technical know-how is likely to increase significantly. Developers are expected to invest in innovative construction technologies to promote mass housing developments and minimize construction costs. Portable modular housing units and pre-fabricated construction technology are some techniques that could be more prevalent in the coming years.

RETAIL MARKET – WHERE DO WE GO FROM HERE?

The retail evolution in India has been quite remarkable; moving from the scenario of only a few malls in early 2000, to more than tripling the retail stock (from 2008 levels) across the top seven cities in a span of just nine years. While the traditional gateway cities of Delhi NCR and Mumbai have been at the core of this activity, lately cities such as Bangalore, Hyderabad, Chennai and Pune have also seen robust retailer interest. The year 2016 was positive – the sector witnessed record PE investments, continuous foray of international brands, completion of retail developments and solid demand. Building upon the positive sentiment of 2016, were the recently announced ranks of the Global Retail Development Index 2017. India topped the ranking amongst developing nations across the world, overtaking China with India's market attractiveness gauged at 63.4%, with retail sales of about USD 1.0 trillion.

CHART 3: LOOKING BACK AT THE DECADE: RETAIL STOCK OVER THE YEARS



Source: CBRE Research, Q2 2017.

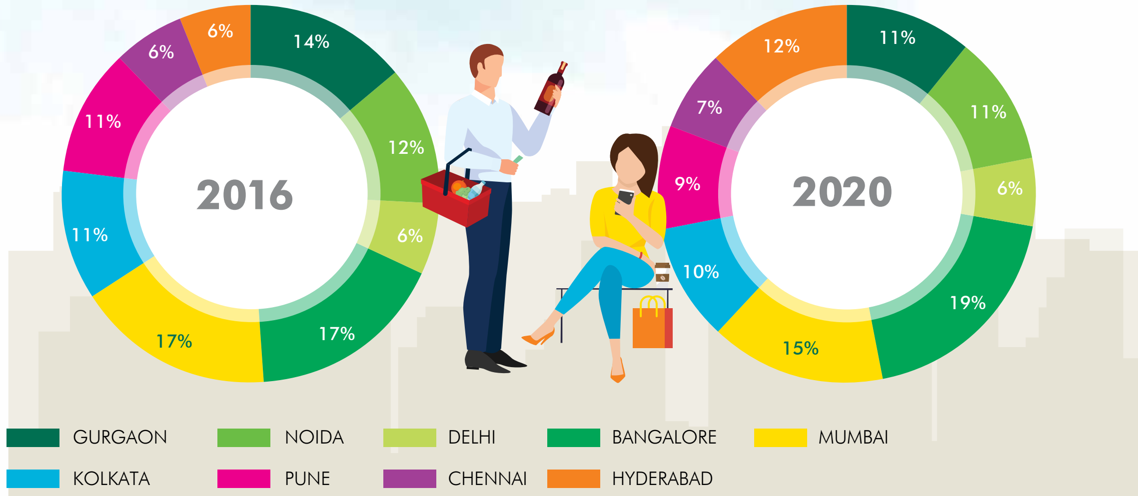
In addition to an increase in organised developments, the country has seen a remarkable spurt in the online retail activity, supported by increasing internet penetration, emergence of online payment options, better value products, government's promotion of Digital India and evolving consumer perception. The government has also initiated several measures such as relaxation of FDI in single brand retail, 100% FDI in the marketplace model and the anticipated easing for FDI in multi-brand retail – all with an aim of boosting investments in the retail sector. More recently, the implementation of GST is likely to provide a boost to consumption as the new rates will be lower for certain segments of apparel and footwear, FMCG products, luxury cars, etc.

Key Trends that will define retail by 2020

MOVING BEYOND THE GATEWAY CITIES

The southern cities, especially Bangalore and Chennai are likely to witness strong supply and both cities combined, are expected to have a share of 30% in the overall retail stock by 2020, as compared to around 23% currently. A strong pipeline will ensure that Bangalore will overtake Mumbai to become the second largest contributor to overall stock by 2020 (just behind Delhi NCR), while Hyderabad will more than double its existing retail stock.

CHART 4: RETAIL STOCK BREAK UP IN 2016 VS 2020



Source: CBRE Research

1 GOOD QUALITY MALLS WILL CONTINUE TO OUTPERFORM

Regardless of any key market trend seen in the near future, quality will continue to remain the overriding theme. While brick and mortar stores in developed retail markets such as the US are beginning to witness an impact with the growing popularity of online retail, quality malls even in such markets are likely to survive, and outperform. For long, quality has been synonymous with tenant mix and presence of luxury apparel brands. But with e-commerce becoming an important part of the retail equation, the dynamics are changing, as there is an added premium on creativity.

2 TENANT MIX TO CHANGE, PLACEMAKING TO BECOME MORE RELEVANT

A mall is no longer seen as just a shopping destination, it involves eating out, entertainment, fitness centres - all businesses that face less risk from e-commerce than traditional tenants. As per CBRE Research's US Placemaking Report 2016, retail landlords in the US are keen to shift their tenant mix from low-growth categories vulnerable to e-commerce towards categories that are drivers of service and experience. In-store experience is likely to play a greater role in the success of brick and mortar stores in the future. Pop-up stores, shorter lease terms – factors that can add to the vibrancy of shopping centres are likely to become increasingly common in the years to come.

3 "SHARING ECONOMY"

In a sharing economy, parties provide each other access to goods or services – for a fee, rather than buying them outright. The sharing economy is an increasingly popular global trend and is expected to continue and evolve in the coming years. Although the concept is still very new to India, we cannot remain isolated from this global trend for long. While it is perceived to have a slightly negative impact on conventional retail, however this trend of lower interest in ownership could also prompt innovations in the retail space. Segments such as luxury retail are likely to benefit significantly from this model, while creating demand for certain niche segments that seemed out of reach for a large majority of the population.

4 CONVERGENCE OF ONLINE AND OFFLINE

According to Forrester Research, India is the fastest growing e-commerce market in the world. It is expected to reach a size of USD 64 billon by 2021, growing at a CAGR of 31.2%. However, challenges such as low internet penetration, low access to mobile internet, significant proportion of India's population in tier II cities having limited knowledge/access to digital payment techniques - will mean that India still has a long way to go before reaching the level of e-commerce maturity in markets like the US and China. Even in the US where retailers are feeling the pinch of competition from internet-based retailers, most of the e-commerce business goes to brands with a strong brick-and-mortar presence – demonstrating the power of an omni-channel strategy. The trend has already started mushrooming in India as retailers are adopting the omni-channel strategy with services such as buy online and collect in store, customer returns and refunds for products bought online and providing store kiosks for browsing and payment for products. This trend is likely to be strengthened in the coming years, as the stores will serve a dual purpose. On one hand, they will provide customers the benefit of physical experience, while retaining the convenience of online retailing, on the other hand, the stores will add a tangible component to the valuation equation of Indian e-commerce players.

5 TECHNOLOGY TO ENHANCE THE EXPERIENCE

The use of technology will no longer be limited to websites or a social/digital media presence, it is likely to move beyond that. Retailers will increasingly adopt the usage of IoT (Internet of Things) and artificial intelligence to amalgamate the physical shopping experience with a digital layer.

6 TRANSIT-ORIENT DEVELOPMENTS (TOD) TO GATHER MOMENTUM

Increasing instances of proposed TOD based developments are being witnessed across major cities. Bharti Retail's Worldmark in Aerocity near the New Delhi airport and L&T proposing retail mall developments along the metro corridor in Hyderabad are instances of retail developments conceptualized to leverage on "customers in transit". With the metro rail coming up in cities such as Bangalore, Kochi, Mumbai and Hyderabad, retail along the metro rail stations could also receive a significant boost; especially for categories such as F&B. These formats could provide occupiers another opportunity to leverage the transit time of consumers, while consumers can utilize this time for a fulfilling retail experience.

LOGISTICS MARKET, WHAT'S IN STORE POST THE GST?

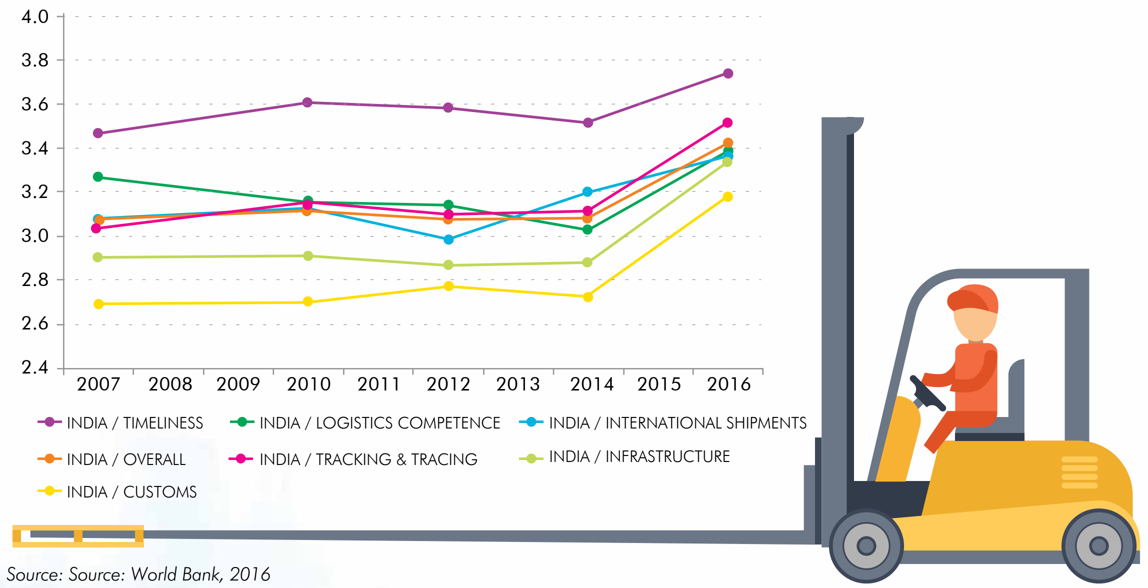
The Current State of Warehousing

Strong and sustained economic growth over the past few years has led to a healthy demand for warehousing and industrial space in India. The country's favorable population composition and increasing disposable income has bolstered consumption-led demand for warehousing. Additionally, the government's 'Make in India' campaign has provided further impetus and induced large scale investments, resulting in strong demand from the manufacturing sector. This coupled with an increasing focus on operational efficiency and growth of new business sectors such as e-commerce, has led to an increase in leasing of modern warehousing space from an average of 4.5 million sq. ft. per annum during 2010–12 to around 7.7 million sq. ft. per annum in 2013–15.

Leasing activity has been led by established and emerging sectors with e-commerce companies emerging as the dominant drivers of demand. Investments into these sectors have also played a pivotal role in shaping demand trends for warehousing in the country. Sectors that drive demand for warehousing such as e-commerce, engineering and manufacturing, Fast Moving Consumer Goods (FMCGs) and retail amongst others, witnessed multi-billion dollar investments for greenfield manufacturing facilities to expand/enter markets or to increase capacity at existing facilities. E-commerce firms, on the other hand, have raised additional funds to meet the growing demand and further penetrate into the Indian market, resulting in some of the largest warehousing space take-ups during 2016.

As India witnesses the entry of global players across segments, there is a need for better quality of warehousing spaces which align with global benchmarks. The government's initiatives to streamline India's logistics ecosystem, particularly custom clearances and overall infrastructure has resulted in India ranking 35 out of 160 countries on the 2016 World Bank's Logistics Performance Index (up from 54 in 2014).

CHART 5: INDIA'S PERFORMANCE ON THE LOGISTICS PERFORMANCE INDEX



Source: Source: World Bank, 2016

Infrastructure projects such as the Industrial Corridors planned between major metros like Delhi, Mumbai, Bangalore, Chennai, Vizag, Amritsar, Kolkata, multimodal logistics hubs at Dadri, Haryana and various other airports, rail networks and port upgradation projects planned across the country, along with the government's intent of developing Multi Modal Logistics Parks will further alleviate the support infrastructure, imperative for the functioning of an efficient warehousing market.

Trends that will define warehousing by 2020

1 A CONSOLIDATED, MORE EFFICIENT MARKET

The implementation of GST will be the overarching theme for warehousing activity in the coming quarters. CBRE India conducted a survey of leading occupiers of warehousing space in the country in early 2017 to gauge their views around the GST, its impact on their business and operating costs, and the likely strategies post its implementation. Approximately 63% of respondents felt that the implementation of the GST will be positive for their overall business operations in India. Another interesting finding from the survey was that in the post-GST era, most warehousing space requirements would be driven by consolidation and expansion activity of occupiers. Close to 28% of respondents said they would consolidate, while 23% stated that they would further expand their operations across the country. The tax is likely to result in the emergence of a more consolidated market, with warehousing needs to be dictated by efficiency, and not concerns around taxation.

CHART 6: GST - OCCUPIER STRATEGY POST 1ST JULY

29% CONSOLIDATION

20% NOT SURE

3% BOTH EXPANSION AND CONSOLIDATION

2% DOWNSIZING

0% RELOCATION

1% BOTH DOWNSIZING AND CONSOLIDATION

24% EXPANSION

20% REMAIN THE SAME

1% EXPANSION, RELOCATION AND CONSOLIDATION

Source: CBRE Research, Q2 2017.

2 DEMAND TO MOVE BEYOND THE OBVIOUS EPICENTERS

Until recently, bulk of the warehousing demand was concentrated across the top three urban centers of the Delhi National Capital Region (NCR) in the North, Mumbai Metropolitan Region (MMR) in the West and Bangalore in the South. As a significant development, 2016 emerged as a landmark year for the warehousing segment as the share of relatively smaller cities such as Hyderabad, Chennai, Kolkata and Pune increased in the overall space take-up. Collectively, these cities leased 49% of the total space leased in 2016, as compared to only 25% during 2015. Going forward, it is likely to result in proliferation of demand and a resultant increased supply in such cities.

3 "MANUFACTURING" - A GLOBAL AND LOCAL CONNECT

As per the Commerce Ministry of India, India will aim to reach 3.5% of the total global trade by 2020 from its current share of 2%. Also, exports, which currently contribute 7.5% of the GDP, need to be pushed further as India signs Foreign Trade Agreements with economies such as Japan, Korea, Asean and Singapore. As the significance of foreign trade in India's economy increases, manufacturers/exporters are likely to benefit from the potential demand from neighboring markets such as Nepal, Sri Lanka and South East Asia. These regional opportunities could also be instrumental in driving the warehousing footprint of occupiers.

Also, manufacturing, which contributed to almost 22% of the demand from the warehousing sector in 2016, is likely to receive a significant boost via the "Make in India" programme. The government is aiming for increasing the share of the manufacturing sector to 25% of the GDP from the existing 17%, to bring it at par with countries such as China, where the manufacturing sector contributes to 36% of GDP and Thailand (35%). The convergence of these factors is likely to result in more robust demand for warehousing spaces.

4 MORE ORGANISED OPERATIONS; INFLOW OF FORMAL SOURCES OF CAPITAL

As the warehousing sector moves towards a more systematic mode of operation, the sector is likely to witness the inflow of institutional funding and formal sources of capital. With the emergence of national players having larger warehouses, deployment of capital in these fewer, better quality assets is likely to become easier. However, given the fragmented and unorganised nature of the sector and limited local market expertise/instances of best practices, in majority of the cases, private equity funds have tied-up with regional developers.

5 INFRASTRUCTURE DEVELOPMENT TO ALLOW SUPPLY CHAIN EFFICIENCIES

As supply chains need to have a larger scale and become more agile, infrastructure development will have to respond to this need by becoming more forward-looking. The government has recognized investments in infrastructure as one of the key drivers of economic development. To fast track growth, the government has set-up the National Investment and Infrastructure Fund (NIIF), as a quasi-sovereign wealth fund with a corpus of INR 0.4 trillion. The Union Budget 2017 emphasized the importance of a multi-modal transport network to allow the complete benefits of the GST and the "Make in India" programme to percolate. The government will develop 35 Multimodal Logistics Parks (MMLPs) in the country, which are expected to serve 50% of the freight movements, enabling 10% reduction in transportation costs and 12% cut in C02 emissions. The government is also working on the formulation of a formal uniform policy for the development of MMLPs.

6 DISRUPTIVE INNOVATIONS WILL DRIVE EFFICIENCY AND COST SAVINGS

While government policies and shifting demand patterns will be potent in shaping future trends, increasing technological applications will redefine the sector's status-quo. There is already an increase in instances of e-commerce companies, 3PL players and online grocery chains utilizing information technology to manage their inventory better. The number of start-ups aimed at bridging the technology gap is also on the rise. Software that enables improved fleet management though live tracking of goods, RFID system for inventory identification, automated pallet storage, amongst others are being increasingly used. As clients become more demanding and the scale of operations grow, the use of technology will only increase.

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