REAL ESTATE
TO ATTRACT BIG MONEY

GUEST COLUMN

AJAY JAIN

FOR Indian real estate sector, 2018 has been a year of transformation in particular. Crucial policy decisions and policy reforms by the government such as demonetisation, RERA, real estate investment trust (REIT), GST, crackdown on the benami properties and RBI tightening norms on NBFCs – all have impacted the real estate sector in big way, both in a positive or negative manner.

Let's look at the ramifications of those key policy changes on various verticals and aspects of the real estate sector.

Residential market

The premium residential real estate segment in the price bracket of Rs 2 crore and Rs 25 crore per unit has faced a challenging time in several pockets across India this year. Having said that, the most preferred ticket size or the sweet spot has been between the range of Rs 50 lakh and Rs 100 lakh per unit across geographies.

India is predominantly a young country, as the majority of the population is under 26 years. Similar to the scenario in the western countries, nuclear families are on the rise in India as well. Such change in the demographics and social fabric will surely continue influencing the demand patterns. Homebuyers now look for hassle-free purchase with peace of mind. They prefer to buy home once the project is on the verge of completion. No buyer is willing to risk his/her investment in projects that are stuck due to delay in obtaining permission and approval, title issues, lack of capital or fund diversions. Buyers always look for safe and risk-free investments.

Luxury projects

From an investment perspective, a property in a big realty project comes with higher saleable risk and low return on investment. However, an exit from such an investment customarily comes at a ready possession stage of the property, thus mitigating all the risks related to that of under-construction properties. But, too many luxury projects at the same time in close proximity across cities contribute to the slow-down in the sale of high-value properties. India is a country with varied income groups. Both poor and super rich co-exist. One shouldn't forget that aspect.

Although completed and under construction projects in the luxury segment are expected to get absorbed over the next 18-24 months, the sectoral pain would persist for at least 18-24 months in the luxury segment. Going forward, the developers will become extremely careful while launching such projects in future. To mitigate the risk of unsold inventory, developers should initiate more critical analysis to evaluate the demand-supply gap for each premium location.

Affordable housing

Affordable housing segment in India is facing its fair share of challenges since most of the projects are located in the outskirts of cities which lack basic infrastructure and amenities such as transportation, water, electricity, school, hospitals, etc. Hence, sale usually picks up the pace when projects near completion. Unless the developers are reputed strong track-record, buyers won't feel comfortable in buying home.

It's fact that the affordable housing is essentially low margin projects. The developers have to infuse a significant amount of liquidity in the form of equity as well as debt to ensure the projects are completed within the promised time frame. Too much supply of affordable houses is not an attractive scenario from both the investors' and the developers' point of view. Many lenders are not willing to fund projects which are outside the city limit. Those who are still willing to fund should look for robust project completion track record and the reputation of the developers.

Price factor

Price is a key factor in the decision-making process of purchasing a particular property. At the moment, the price range of Rs 4,000 and Rs 8,000 per square feet has emerged as the only lucrative space in demand, as compared to the Rs 8,000-15,000 per square feet range which was in demand 18 months back. Having said that, developments are happening only in the tier – I and tier - II cities. Rest of the region is still languishing.

Unsold inventory

The residential real estate market has witnessed a sluggish demand throughout the year which has caused the unsold inventory levels to rise in key micro-markets.

GST

The real estate sector was previously burdened with multiple taxes like VAT, service tax, stamp duty, etc. The implementation of GST has, in a way, removed the multiplicity of taxes to introduce just two components i.e. GST and stamp duty. However, GST has increased cost unit for the investors or buyers to the tune of 12 per cent, which has led to the slowdown in sales.

RERA

RERA has brought in a lot of disciple and transparency to the real estate sector. Thanks to RERA, buyers and the investors have become aware of various rights available to them. An organised sector will also benefit the builders in the long run in terms of better planning, execution, easy availability of fund, generating interest among the buyer and resultant improved sale. With RERA in place, customers are assured of timely delivery of the projects and the protection of their capital due to the penalty provision and the provision to maintain 70 per cent of the money collected towards the cost of construction. What's more, the pre-launch sale is not permitted unless approval and permissions are in place. RERA has proved to be a big help in streamlining the Indian real estate sector.

JV & consolidation

In a market which has been witnessing a slowdown for the past few years, the trend of joint ventures being formed by developers and strategic investors as well as between developers is gaining momentum. The objective is not only to raise capital during this financial crunch but also to pool their resources together to bring credibility and expertise in delivering projects. There are partnerships taking place between the developers and the land-owners as well which minimise the need to block funds upfront to purchase land. The developer, in such partnership, brings to the table the required know-how on the macro and micro aspects of the industry – from land laws and regulations to nuanced understanding of the pulse of the buyers to make watertight agreements with the borrowers (or buyers?).

Commercial real estate

In this segment, retail and warehousing verticals have seen growing interest among the investors and buyers this year since this asset class usually earns a decent return in the form of rental income and price appreciation. A number of global fund and investors always looks for acquiring such properties.

PE & global investors

Private Equity players such as Brookfield, Goldman Sach, Blackstone, CPPIB, ADIA, Warburg Pincus, KKR, GIC and Sun Group have been continuously investing in the commercial and retail real estate segments throughout the year.

NBFC & housing finance

Top NBFC & HFC who has supported real estate developers during the year (especially when Banks were not lending) are Piramal, Indiabulls, L&T Finance, Altico Capital India, KKR, JM Financial, Edelweiss, PNB Housing, LIC Housing, Capri Global. However, post IL&FS saga, these NBFCs have slowed down the lending process. There is slow credit off-take from banks to NBFC and NBFC to developers at the moment.

The lenders and investors such as banks, HFC, NBFC and PE have also tightened lending norms apart from slowing down lending. The IL&FS debacle has put pressure on the entire lenders and investor community. The funding to the real estate sector has dried up.

Way forward

Improvement in the economic activities across sectors such as manufacturing, services and trading would certainly lead to the availability of higher disposable income. The real estate sector is one of the largest asset classes in India and in the world and it will surely find buyers once the economy regains its momentum.

A major chunk of the investments could flow into the commercial real estate segment, followed by retail and residential real estate segments. This trend is expected to persist as the sector continues to mature with developers ramping up their operations to become more organised and transparent in their approach, thereby attracting greater attention from the domestic and offshore investor base.

The foremost strength of the Indian real estate industry is its rising population as that in itself creates housing shortage and subsequent demand. Because of rapid urbanisation, the housing shortage in India has touched 20 million units.

The sector also offers tremendous employment generation and business opportunities, both direct and indirect. These job prospects straddle a broad spectrum of profiles such as material suppliers, architects, contractors, project management consultants, design consultants, so on and so forth.

The sector is also dependent to a great extent on the performance of the sectors like steel, cement, electronics, furnishing, IT etc. Ever increasing domestic demand combined with a growing economy and favourable investment climate form the backbone of the real estate sector.

To accelerate growth, the wish-list of the sector includes rapid development in urban infrastructure, technology advancement, influx of funding, single window clearance mechanism for a speedy approval process, to name a few.

The dynamics of the real estate sector are changing with the affordable housing becoming the new target segment, demand for office and retail spaces witnessing a resurgence and industrial corridors driving the development of smart cities. Banking on these factors, the real estate sector in India is set to gain a competitive advantage which will help in stimulating growth in the sector.

(The author is managing director at Monal Capital)

FINANCIAL Chronicle Weekend

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SATURDAY DECEMBER 29 - SUNDAY DECEMBER 30, 2018

NEW DELHI VOLUME 10 NO - 222 PAGES 32 Rs 3.00

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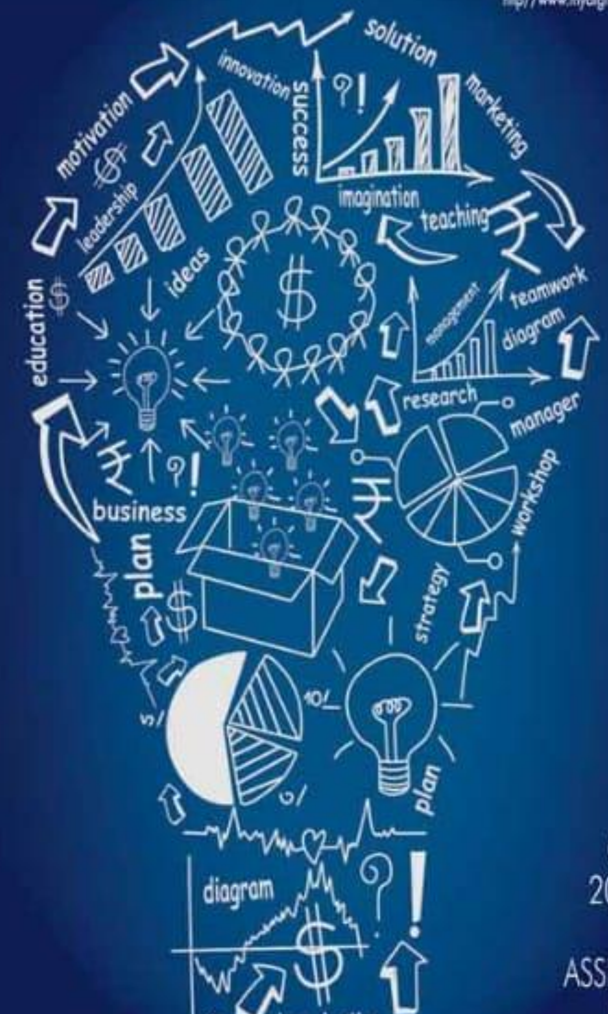

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AFTER A GANGBUSTERS 2017, 2018 WAS TEPID ACROSS ASSET CLASSES, FC BRINGS YOU A PRIMER ON WHERE TO PARK YOUR MONEY IN THE NEW YEAR, WHICH WILL BE POLITICALLY CHARGED WITH A TOUGH GENERAL ELECTION ON THE ANVIL