



## INDIAN REAL ESTATE INDUSTRY ANALYSIS AS PER PRESENT TRENDS

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### ABSTRACT:

*For the real estate sector, the last few years have been quite agonising. In this paper we discuss about the growth rate in real estate sector in India. Declining sales and mounting debts played havoc for the sector that is seen as one of the growth drivers for the economy. However, things changed for the better in early 2014 as a stable government came to power at the Centre with a thumping majority. This led to a boost in investor confidence coupled with renewed interest from key stakeholders. The government has unleashed a lot of reforms in the last few months to give a fresh impetus to the sector. Decisions for investment, buying and selling of properties depend upon the market value of that property. Issues arise in arriving at the actual value of the property as well as computing the rate of returns from the estate. Addressing valuation related issues through an understanding of behaviour of real property rates provide the means to explore the quality of past decisions and to make valid future decisions. Increased demand for housing and investment in properties has led to increase in the rates of real estate. An attempt has been made to study the change and behaviour of rates of real estate and factors influencing India.*

**Keywords-**Real estate, valuation, property rates, trend analysis and growth analysis.

### INTRODUCTION:

The real estate sector is one of the most globally recognised sectors. In India, real estate is the second largest employer after agriculture and is slated to grow at 30 per cent over the next decade. The Indian real estate market has become one of the most preferred destinations in the Asia Pacific<sup>1</sup> as overseas funds accounted for more than 50 per cent of all investment activity in India in 2014, compared with just 26 per cent in 2013.

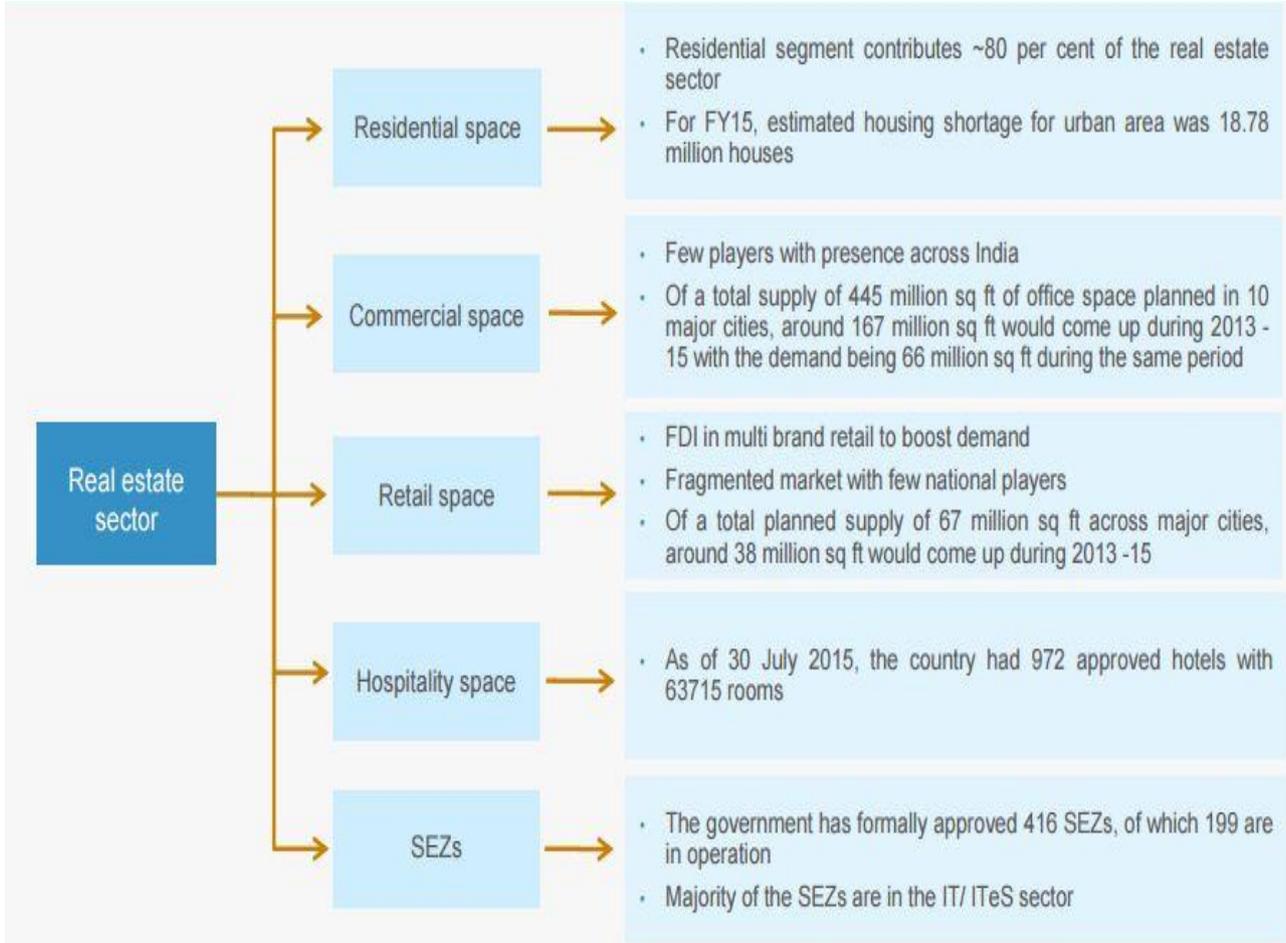
The real estate sector comprises four sub sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodations.

The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy.

It is also expected that this sector will incur more non-resident Indian (NRI) investments in both the short term and the long term. Bengaluru is expected to be the most favoured property

investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun.

### SEGMENTS IN INDIAN REAL ESTATE SECTOR:



### Market Size:

The Indian real estate market is expected to touch US\$ 180 billion by 2020. The housing sector alone contributes 5-6 per cent to the country's Gross Domestic Product (GDP).

In the period FY08-20, the market size of this sector is expected to increase at a Compound Annual Growth Rate (CAGR) of 11.2 per cent. Retail, hospitality and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs.

During the first nine months of 2015, PE funds invested about US\$ 2.4 billion in the real estate sector, across 53 transactions compared US\$ 1.3 billion across 57 transactions in the same period last year. Deal sizes have also increased in 2015, and residential projects both luxury and affordable have attracted a substantial amount of capital.

Private Equity (PE) funds and Non-Banking Financial Companies (NBFCs) in India are seen increasingly investing jointly in real estate projects, in order to hedge risk and undertake bigger transactions.



Mumbai is the best city in India for commercial real estate investment, with returns of 12-19 per cent likely in the next five years, followed by Bengaluru and Delhi-National Capital Region (NCR). Also, Delhi-NCR was the biggest office market in India with 110 million sq ft, out of which 88 million sq ft were occupied. Sectors such as IT and ITeS, retail, consulting and e-commerce have registered high demand for office space in recent times.

India's office space absorption stood at 35 million sq ft during 2015, which is the second highest figure in the India's history after 2011, and was driven by corporates implementing their growth plans.

India had the strongest activity in office leasing space in Asia and accounted for half of Asia's total office leasing in third quarter of 2015, with Delhi being the most active market<sup>3</sup>.

Delhi's Central Business District (CBD) of Connaught Place has been ranked as the sixth most expensive prime office market in the world with occupancy costs at US\$ 160 per sq ft per annum.

## **INVESTMENTS:**

The Indian real estate sector has witnessed high growth in recent times with the rise in demand for office as well as residential spaces. According to data released by Department of Industrial Policy and Promotion (DIPP), the construction development sector in India has received Foreign Direct Investment (FDI) equity inflows to the tune of US\$ 24.156 billion in the period April 2000-September 2015.

Some of the major investments in this sector are as follows:

- Edelweiss Alternative Asset Advisors Ltd plans to raise US\$ 1 billion for its first residential real estate fund called the Edelweiss Real Estate Fund, which will finance investments in five property markets in India - National Capital Region (NCR), Mumbai, Pune, Bengaluru and Chennai.
- Quikr, an online classifieds platform, has acquired real estate portal Commonfloor.com for US\$ 200 million in a stock-cum-cash deal.
- Edelweiss Alternative Asset Advisors and Milestone Capital are investing Rs 7,200 crore (US\$ 1.08 billion) in India's real estate sector while private equity firms like Goldman Sachs, Warburg Pincus and Singapore's GIC are exploring viable projects for investments, as a result of government's effort to boost real estate sector.
- Macquarie Infrastructure and Real Assets (MIRA), the realty investment arm of Australian Macquarie Group Ltd, plans to invest in real estate projects in India and is in talks with Tata Housing Development Co. to jointly set up an investment platform.
- Google Capital has invested in Bengaluru-based online property search platform, CommonFloor.com.
- Omkar Realtors and Developers Private Limited is in discussions to raise Rs 400 crore (US\$ 60 million) from KKR India, the local arm of PE firm Kohlberg Kravis Roberts and Co.
- Goldman Sachs bought shares worth Rs 255 crore (US\$ 38.3 million) in Vatika Hotels Private Limited, a company owned by real estate and hospitality firm Vatika Group.



- SoftBank, Falcon Edge Capital and a few others invested US\$ 90 million in Locon Solutions Private Limited, which runs Housing.com - a realty website.
- Real estate firm Supertech has planned to invest about Rs 2,000 crore (US\$ 300 million) in Gurgaon over the next few years by launching several luxury and affordable projects.
- PE firm Warburg Pincus invested Rs 1,800 crore (US\$ 270 million) in Piramal Realty for a minority stake in the company.
- China's Fosun International Limited is seeking to invest US\$ 100 million in Locon Solutions, the owner of Housing.com

### **GOVERNMENT INITIATIVES:**

The Government of India along with the governments of the respective states has taken several initiatives to encourage the development in the sector. The Smart City Project, where there is a plan to build 100 smart cities, is a prime opportunity for the real estate companies. Below are some of the other major Government Initiatives:

- The Government of Rajasthan became the first state to initiate private investments in affordable housing by signing four Memoranda of Understanding (MoUs) with private players for an investment of Rs 5,400 crore (US\$ 810 million).
- The Ministry of Housing and Urban Poverty Alleviation (HUPA) has commissioned a study by Indian Institute of Technology, Kanpur on testing of new construction technologies, with the objective of promoting new housing technologies in the country.
- India's Prime Minister Mr Narendra Modi approved the launch of Housing for All by 2022. Under the Sardar Patel Urban Housing Mission, 30 million houses will be built in India by 2022, mostly for the economically weaker sections and low-income groups, through public-private-partnership (PPP) and interest subsidy.
- The Government of India has relaxed the norms to allow Foreign Direct Investment (FDI) in the construction development sector. This move should boost affordable housing projects and smart cities across the country.
- The Securities and Exchange Board of India (SEBI) has notified final regulations that will govern real estate investment trusts (REITs) and infrastructure investment trusts (InvITs). This move will enable easier access to funds for cash-strapped developers and create a new investment avenue for institutions and high net worth individuals, and eventually ordinary investors.
- The Government of Maharashtra announced a series of measures to bring transparency and increase the ease of doing business in the real estate sector.
- The State Government of Kerala has decided to make the process of securing permits from local bodies for construction of houses smoother, as it plans to make the process online with the launch of software called 'Sanketham'. This will ensure a more standardised procedure, more transparency, and less corruption and bribery.

### ROAD AHEAD:

Responding to an increasingly well-informed consumer base and, bearing in mind the aspect of globalisation, Indian real estate developers have shifted gears and accepted fresh challenges. The most marked change has been the shift from family owned businesses to that of professionally managed ones. Real estate developers, in meeting the growing need for managing multiple projects across cities, are also investing in centralised processes to source material and organise manpower and hiring qualified professionals in areas like project management, architecture and engineering.

The growing flow of FDI into Indian real estate is encouraging increased transparency. Developers, in order to attract funding, have revamped their accounting and management systems to meet due diligence standards.

**Exchange Rate Used:** INR 1 = US\$ 0.015 as on December 17, 2015

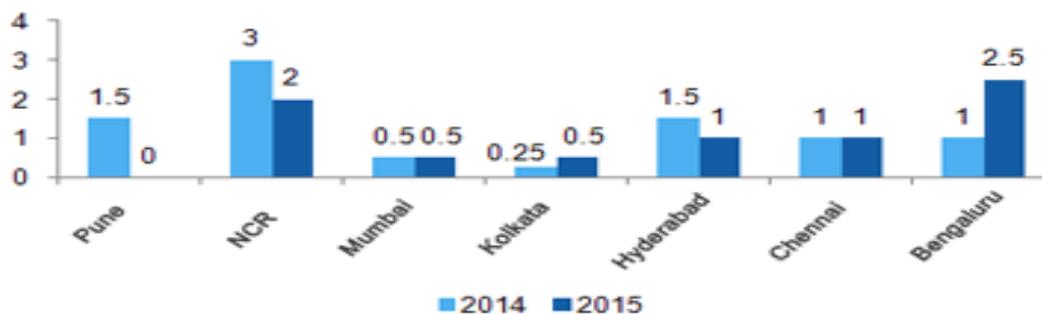
References: Media Reports, Press releases

Notes: 1 - 'Emerging Trends in Real Estate Asia Pacific 2016' report by PricewaterhouseCoopers (PwC) India, 2 – as per JLL India, 3 – 'Global Market Perspective (Q4, 2015)' report by JLL India

### Key drivers for retail growth in India:

- Booming consumerism in India
- Organised retail sector growing 25-30 per cent annually
- Entry of MNC retailers
- India's population below 30 years of age having exposure to global retail are expected to drive demand for organised retail

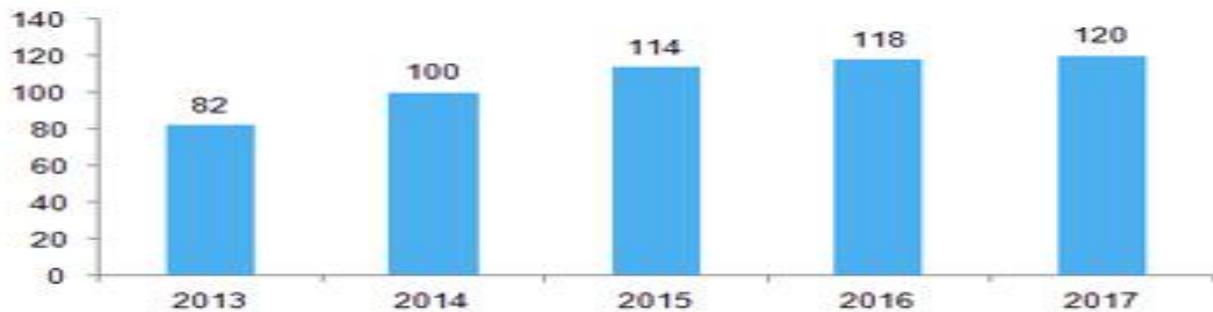
### Upcoming mall supply across top 7 cities (million sq ft)



Source: Cushman & Wakefield, Aranca Research

**Figure:** Upcoming mall supply across top 7 cities

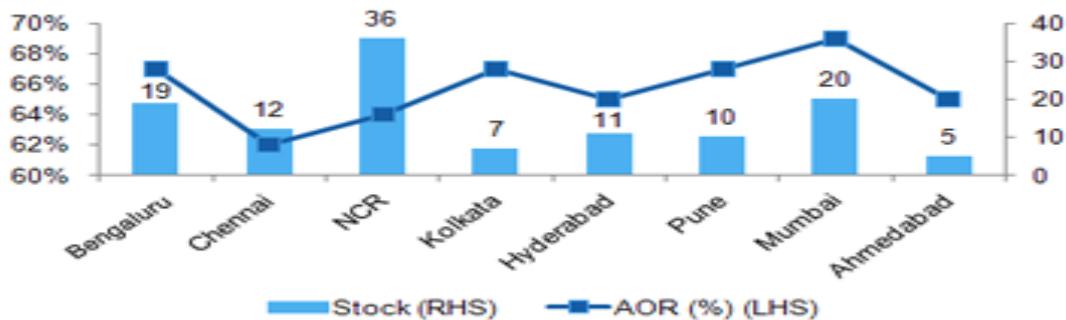
### Trend in Hospitality market (stock - no of rooms) ('000s)



Source: Cushman & Wakefield, Aranca Research

Figure: Trend in hospitality market

### Occupancy rate Vs. Stock in major Indian cities (Est. 2017)



Source: Cushman & Wakefield, Aranca Research  
 Notes: AOR: Average Occupancy Rate

Figure: Estimated Occupancy rate Vs Stock in major India cities

### EXPECTATIONS AND CONCLUSION:

India's real estate market is expected to reach US\$ 180 billion by 2020 from US\$ 93.8 billion in 2014. Emergence of nuclear families, rapid urbanisation and rising household income are likely to remain the key drivers for growth in all spheres of real estate, including residential, commercial and retail.

Real estate is currently the fourth-largest sector in the country in terms of Foreign Direct Investment (FDI) inflows. Total FDI in the construction development sector during April 2000–May 2015 stood at around US\$ 24.07 billion.

The Government of India has been supportive to the real estate sector. In August 2015, the Union Cabinet approved 100 Smart City Projects in India. The Government has also raised FDI limits for townships and settlements development projects to 100 per cent. Real estate projects within the Special Economic Zone (SEZ) are also permitted 100 per cent FDI. In Union Budget 2015-16, the



government allocated US\$ 3.72 billion for housing and urban development. The government has also released draft guidelines for investments by Real Estate Investment Trusts (REITs) in non-residential segment.

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