

Improving transparency in secondary real estate market

July 2018



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FICCI Secretary General's message

The findings of the report would be invaluable not only to realtors, but also to consumers, government, research, academia and the industry at large.



The growth of urbanisation in India demands comprehensive and highly integrated physical, institutional, social and economic infrastructure development. The government has taken major policy initiatives to bring about dynamism in the real estate sector which has maximum linkages to other industries after agriculture. These include: Pradhan Mantri Awas Yojana (PMAY), Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Real Estate (Regulation and Development) Act 2016 (RERA), Smart Cities Mission, Affordable Housing, Benami Transactions Act, Real Estate Investment Trusts (REITs), and easing of FDI norms. All of these will energise and boost the sector and have positive impact in the long run.

These reforms have impacted the primary real estate market significantly. Considering that secondary real estate market brings in enhanced returns at lower risk, it is now time to focus on the same for a holistic picture of the real estate sector in India.

The secondary real estate market has been witnessing a prolonged period of churn with sales slowing down and absorption rate of unsold inventory crashing to a new low. With the implementation of RERA, developers are focusing heavily on sales of their ready-possession stock. This has resulted in an uptick in user demand for such properties or those nearing completion. However, to improve sales in the secondary market, the formalisation of the market is important which will further improve transparency in dealings. The secondary market will have to migrate to a system where cheque payments will comprise a large share of their dealings.

The **FICCI-Grant Thornton-Escrowfr survey-based report**, a first of its kind, makes a holistic pan-India assessment on various parameters in the secondary market. It identifies the direct impact of a regularised secondary market on stakeholders. A majority of the respondents have opined that formalisation in the market should happen which will further bring transparency and authority in real estate dealings and reduce litigations. This will also improve the ease of availability of financing options in the market. A major outcome of the survey is that the industry feels that transactions must happen through banking channels.

The release of the report in the conference on **Improving transparency in secondary real estate market** today would set the tone of deliberations and enrich the discussions. I am sure that the findings of the report would be invaluable not only to realtors, but also to consumers, government, research, academia and the industry. The deliberations, ideas and the conclusions that arise from this report would go a long way in addressing the regulatory challenges and show the path for taking the real estate sector forward.

Dilip Chenoy
Secretary General,
FICCI

Foreword from Grant Thornton

Given the sheer size of transactions in the secondary market, there is a need to streamline the underlying processes through policy interventions.



Secondary real estate is a critical component of the overall real estate market of India. Statistics clearly demonstrate that India's two largest real estate markets' (NCR and MMR) secondary sales accounted for more than 50% of the real estate transacted in 2017-18. The contribution of secondary real estate market in other large cities like Bengaluru, Pune and Hyderabad has also been sizeable. While the volume of transactions in secondary real estate is high, these transactions are characterised by lack of trust, no standard process of documentation and increasing litigations. Having said that, the secondary market has its own merits, such as no delays in getting possession and the opportunity to clearly see the unit/property being purchased.

Rationalising the real estate sector has been one of the key agendas of the government and some of the policy initiatives such as demonetisation, RERA and affordable housing have been clear attempts at bringing in much needed transparency. Regularising the secondary market is the need of the hour given its sheer volume.

This survey-based thought leadership report captures some of the critical data points relating to the secondary real estate market and the feedback by industry leaders on aspects of secondary real estate transactions. This report also lists key suggestions for the government for their kind consideration.

I hope you will find the report informative.

Neeraj Sharma

Director

Grant Thornton Advisory Private Limited

Foreword from Escrowffrr

This is an exciting time for the real estate sector in India. Govt's key initiatives for the sector have boosted the sentiment of all stakeholders.

The Indian real estate sector is being redefined by the recent government initiatives like RERA, Benami Transaction Prohibition (Amendment) Act 2016, amendments in REITs regulations, Goods and Services Tax (GST) and demonetisation. The Cabinet cleared 100% Foreign Direct Investment (FDI) under the automatic route for real estate broking services on the grounds that these services do not amount to real estate business. The government wants to usher in more transparency and compliance in this sector.

The property brokerage industry has always been very fragmented and the initiatives taken by the government are welcome as these will make the industry more organised. Foreign brokerages are now expected to enter India. With the real estate being regulated now, more young Indians will choose real estate agent as a profession.



The government should now focus on streamlining the secondary real estate market, which is over 50 million units. With 60% of India's legal matters in courts relating to property matters, bringing in title insurance, escrow accounts, property management and property diligence, will be game changers for the market.

Ashwin Chawwla

CEO

Trustmore Technologies (P) Limited

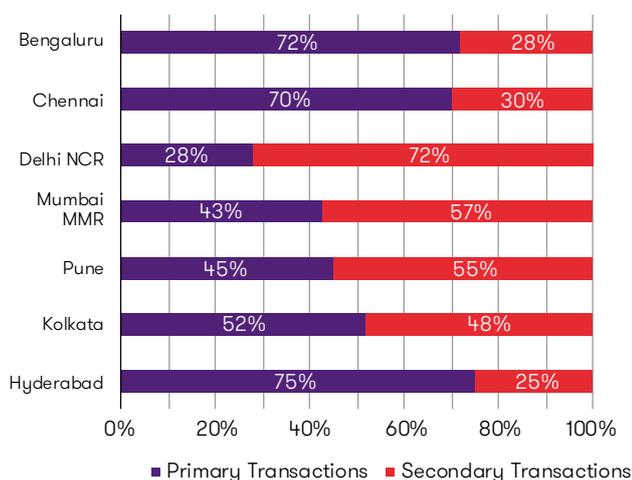
Secondary real estate market in India

Positive pan-India recovery in the last six months

In India, secondary real estate purchase is preferred over purchase from the primary market because it is cost and time effective and, most importantly, there are no delays in possession. In 2018, it has started showing signs of recovery from the time of demonetisation, and sales have started picking up in the last four quarters. Deal size has remained small, but there has been a positive momentum throughout the country. Another positive momentum was witnessed after the market got clarity on the applicability and accountability of RERA and GST. However, this also created an opportunity for the end-users to negotiate heavily due to variations in the quoted prices in the secondary market. Mostly, demand was witnessed in the affordable and mid-range housing segment. On the secondary luxury property side, demand has remained weak, as customers have been sceptical about the market recovery.

Data clearly shows that in 2017-18, about 72% transactions in Delhi-NCR were concluded in the secondary segment, while only 28% were concluded in the primary segment, which clearly exhibits weak consumer sentiments towards primary sale. On the other hand, cities like Bengaluru, Chennai and Hyderabad recorded on average 72% primary transactions, while Mumbai, Pune and Kolkata showed almost an equal distribution.

Primary vs secondary distribution by market transactions



Source: Grant Thornton Research

Grant Thornton forecast

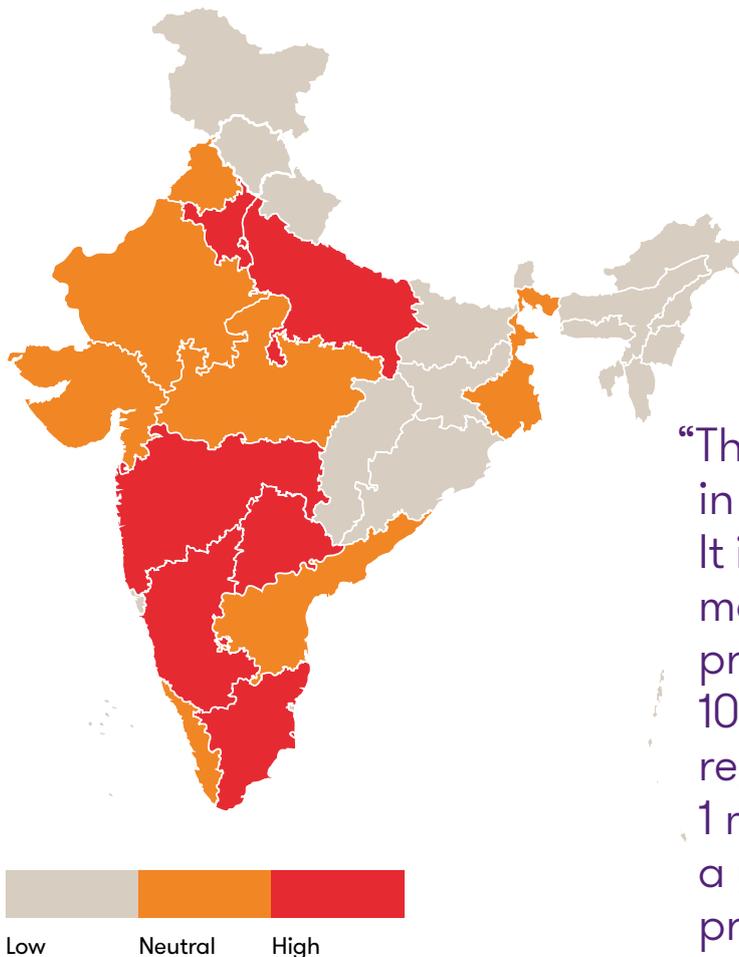
Consumer sentiments towards the primary market are feeble due to prolonged factors like delay in possession, distrust of the developers and ambiguous pricing for services not opted. However, execution challenges and consumer confidence are subject to the upcoming general elections in 2019 in terms of policy-level initiatives to bring in transparency into the secondary real estate market.

Challenges in the secondary real estate market in India

Real estate transactions in India come with their own set of challenges. In the secondary market, the major challenges are on the payment side where a lump sum amount is blocked in the transaction process and the entire amount is at high risk. Cash transactions are another challenge, with sellers demanding payment in cash to avoid capital gains tax. Lastly, documentation or the legal vetting of property papers is a big challenge, with incomplete or unclear property chains.

In majority of the cases, end users are unaware of these possible challenges, ultimately bringing legal anguish, black money and deception into the sector. On the basis of such operational-level challenges, we have divided states into 'low', 'neutral' and 'high' levels of risks associated with real estate transactions.

Secondary real estate market sentiment heat map



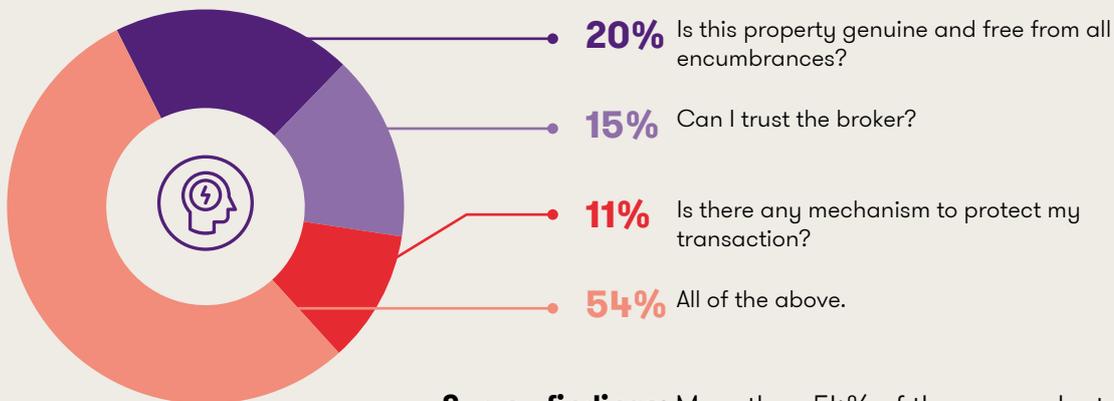
Source: Grant Thornton Research

“The secondary property market in India is very fragmented. It is larger than the primary market and so is the pain for the property buyers and sellers. Top 10 cities have about 340 sub registrar offices registering over 1 million property documents a year. Securing advance and property title is critical as it is the largest transaction we make during our lifetime.”

Ashwin Chawwla, CEO,
Trustmore Technologies

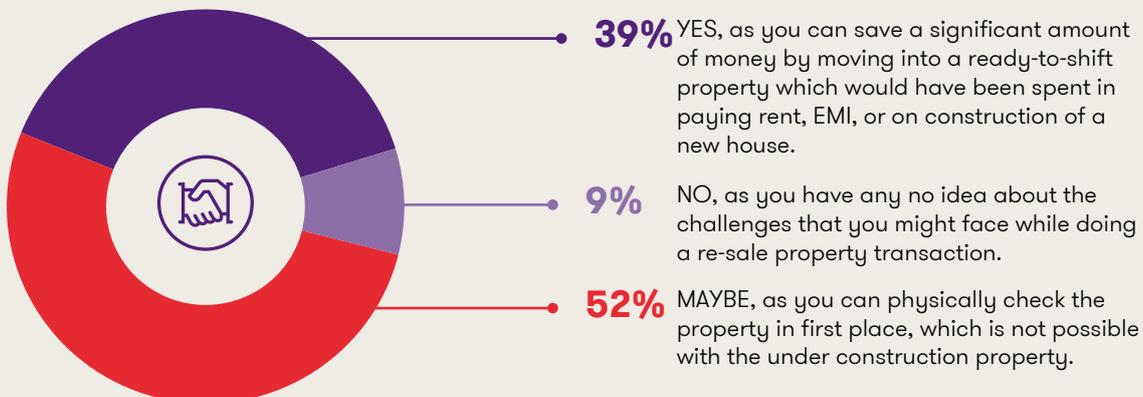
Survey analysis

Q1. What comes to your mind first while doing a real estate transaction in the secondary market?



Survey findings: More than 54% of the respondents feel that while buying a resale property, various factors come to play like the authenticity of the deal, trust on the broker and finding ways to mitigate financial risk in the transaction.

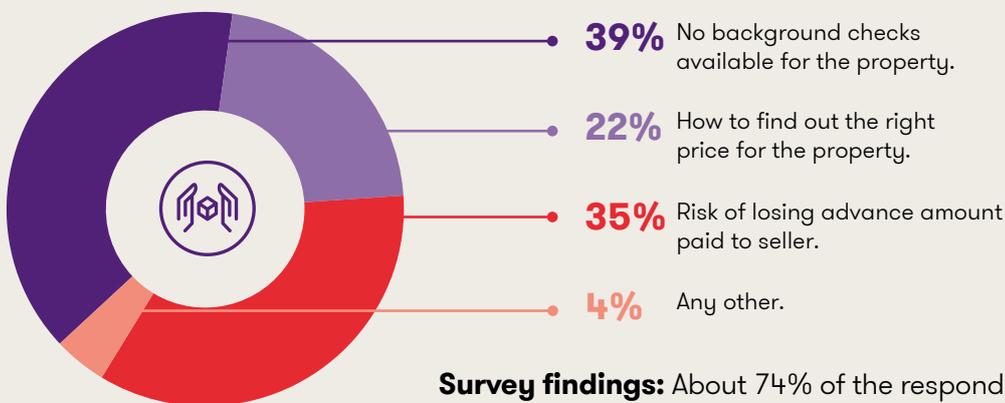
Q2. Do you think buying a resale property is better?



Survey findings: Over 90% respondents believe that buying a resale property is better than buying primary property, as it eliminates the risk of delays and provides an opportunity to physically check and see the property being purchased.

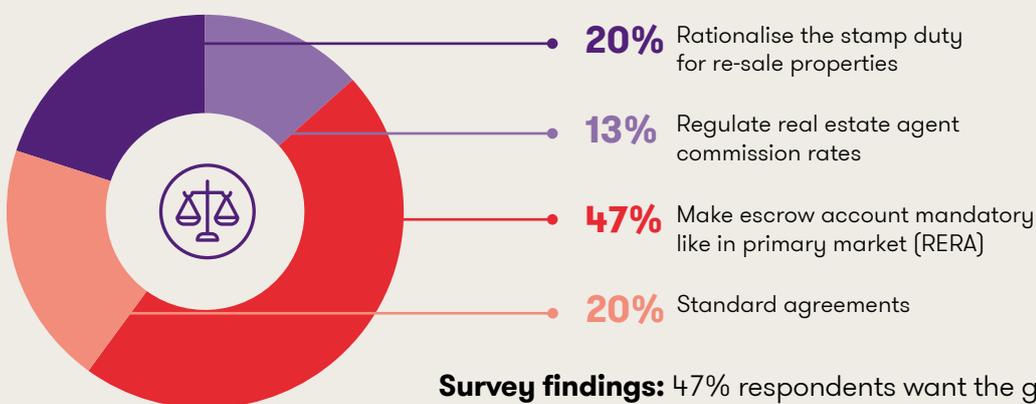
Survey analysis

Q3. What common challenges do you face while buying a resale property?



Survey findings: About 74% of the respondents feel that while purchasing a resale property, background legal check is a major challenge. They also feel that they are more prone to losing their money paid to the seller in cash or cheque as there is no escrow mechanism in place. Another set of respondents reckoned that finding the right property at the right price is a challenge.

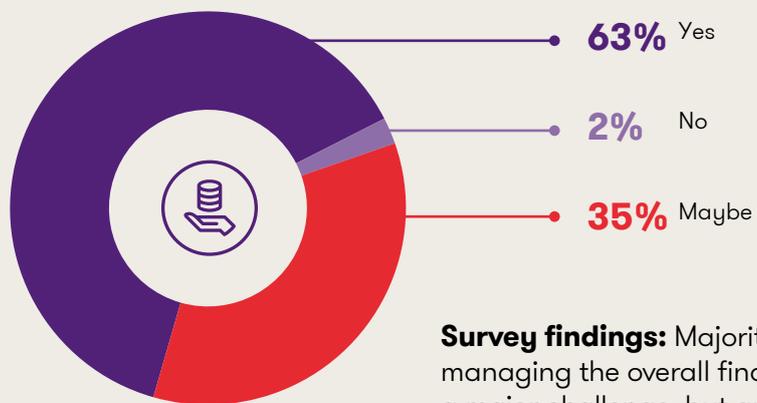
Q4. What do you think the government should do to promote the secondary real estate market?



Survey findings: 47% respondents want the government to streamline the secondary real estate market to avoid paying high stamp duty and other taxes by making escrow mechanism compulsory. Also, about 40% feel that rationalisation of stamp duty and standard agreement will give a boost to the overall sector and bring in transparency.

Survey analysis

Q5. Do you think an escrow account mechanism can mitigate your financial transaction worries in the resale market?



Survey findings: Majority of the respondents (63%) felt that managing the overall financial worries in a resale transaction is a major challenge, but an escrow mechanism can mitigate the apprehension.





Industry viewpoints: Escrow mechanism in secondary real estate market transactions

The secondary/resale property transactions market is valued at \$15 billion and has usually witnessed a huge trust deficit due to property-related litigations. This offering will bring about transparency in the ecosystem and will go a long way in bridging the prevalent trust deficit.

Yatin Sharma
COO, RE/MAX India

Because the money stays in a neutral account, it will lead to lesser litigations.

Harinder Singh
CEO, Abode1st

Escrow account is definitely going to help secondary market. The other party will get money on completion of transactions, this is beneficial for all stakeholder.

Ravinder Aggarwal
President - ACRI

Transparency in secondary real estate deals is like loyalty in marriage, even little bit tinkering is immoral.

Tarun Preet Singh Bhatia
JRD Consulting

As RERA does not cover secondary real estate transactions which constitute a substantial cash component, regulating the secondary market is the need of the hour. Transparency can be achieved only after the cash component is removed.

Nipun Chawla
General Secretary, ACRI

It's imperative to improve transparency in the secondary real estate market as more money flows in from the end users who are mainly investing in ready-to-move-in homes, and are demanding improvements in transparency and accountability. They are also looking for frequently updated and real-time information which is so hard to come by in the current opaque set up.

Tarun Bhatia
Partner - M/s Shaloo Agencies | Treasurer - NAR India

In secondary real estate transactions, the buyer is generally hesitant because of the risk of losing 10% of the property value as an advance to the seller, in case the deal falls through for any reason. S/he is totally at the mercy of the seller to get the money back, which often leads to litigation.

Arun Sharma
Shivangi Group

“The feedback of industry captains echoes the potential of secondary real estate market and stresses on the need to have an escrow mechanism for transparency.”

Neeraj Sharma
Director, Grant Thornton Advisory Pvt Ltd

Recommendations

The government's focus in recent times was more on the primary real estate market, where policy-level initiatives like RERA, Benami, GST and demonetisation were introduced to make the sector more organised, regulated and transparent. However, no policy-level initiatives have been proposed for the secondary real estate market. Based on our survey analysis, we have the following recommendations for the secondary market.

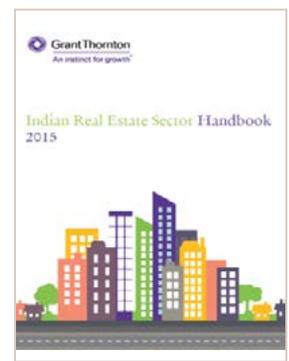
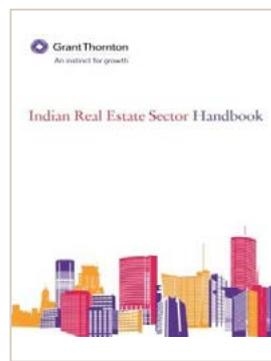
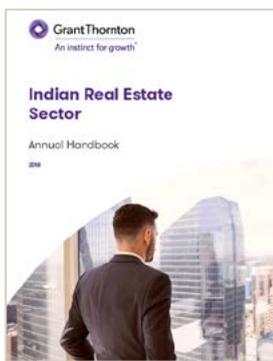
The government should focus on digitisation of property records (titles/chain), which will gradually decrease legal challenges and reduce the overall process time.



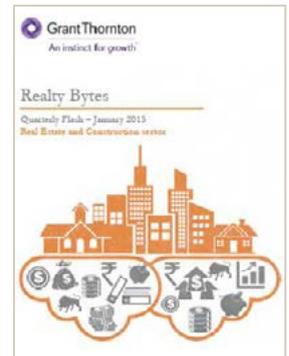
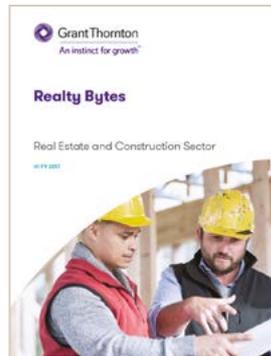
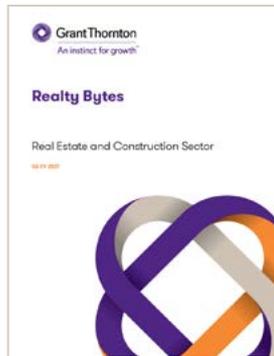
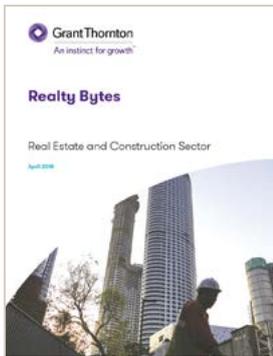
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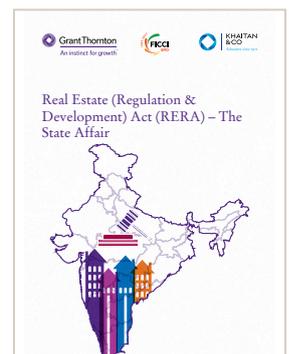
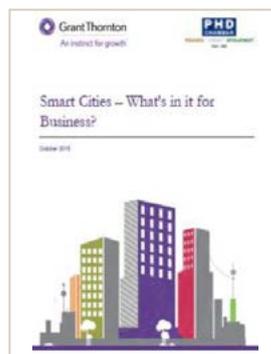
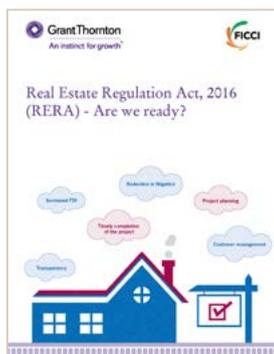
Indian Real Estate Sector: Annual Handbook



Realty Bytes: Quarterly publication on key developments in the real estate sector



Other publications



About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialisation, and its emergence as one of the most rapidly growing global economies. A not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 250,000 companies. FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

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Vishesh C Chandiok,
Chief Executive Officer, Grant Thornton India LLP

About Escrowffrr

Escrowffrr (ESCROW FAST FUNDS REMIT or RELEASE) is India's first neutral, online and convenient 'escrow' platform powered by ICICI Bank. Through this offering, our vision is to empower property buyers and sellers in the secondary / resale market. Escrowffrr assures complete transparency and helps users transact in a secure and worry-free manner. We provide users with pre approved legal documents like the agreement to sell, cancellation letter and release letter which drastically reduces the deal completion time.

Users having a valid aadhar card, pan card and a cancelled cheque can set up the escrow account online in a few minutes. The escrow account is available on a fee of just Rs. 5000 + GST to be paid by the buyer. Seller escrow fee is zero.

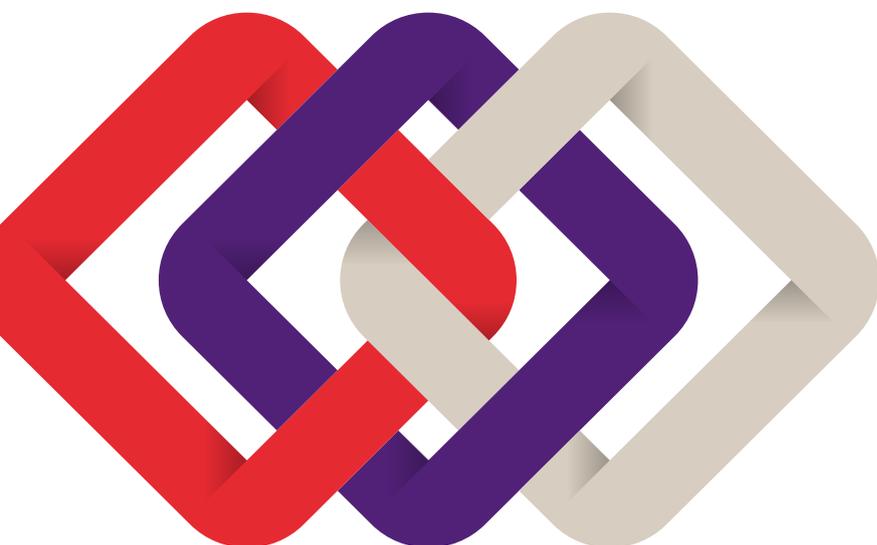
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