# Realty Bytes

Real Estate and Construction Sector

**H1 FY 2017**

# Contents

# Foreword

The first half of 2017 witnessed a minimal variation across various market indicators except new launches.

Housing supply across key cities declined by approximately 20 per cent largely on account of developers anticipating dip in demand post demonetisation coupled with muted investor demand. Unsold stock declined slightly from the previous quarter mainly on account of no new launches.

The sector has long faced issues in terms of macroeconomic conditions and fiscal policy decisions. One such challenge is the management of multiple indirect tax levies, such as VAT, service tax, excise, stamp duty and registration fees. With the launch of GST, which subsumes multiple indirect taxes, tax compliance will be simplified and scope for multiple taxtation will be minimised.

As GST proposes to roll multiple taxes into one, the cost of construction will come down, which would mean homes would become cheaper. This should bring more liquidity into the market and boost home sales.

With the Real Estate (Regulation and Development) Act, 2016 finally coming into force on 1 May, India has now got its first realty regulator. The Act brings in much-needed transparency and a range of benefits for both, buyers and developers. RERA will bring almost 83,000 registered builders in India under its purview, and better regulation and accountability will spur investments from foreign and domestic financial institutions.

These regulatory changes are expected to boost domestic and foreign investment in the sector and help achieve the Indian government's objective to provide housing for all by 2022 through enhanced private participation.

The current quarter witnessed some key private equity investments; notably among others were the investments by the Xander group in Shriram Gateway SEZ, wherein 100 per cent stake was purchased at USD 350 million and the investment by Canada Pension Plan Investment Board in The Phoenix Mills Limited wherein 49 per cent of the stake was purchased at USD 250 million.

The recent legislations and reforms in the real estate sector have paved the path for a transparent real estate regime. GST is expected to simplify tax implications and reduce tax incidence as the suppliers can claim input credit on construction material. 14 states have notified the RERA rules, attempts to stall or water down the Act were made from its inception, and state-level rules are yet to be issued in many cases. But many attempted dilutions were forestalled or reversed, thanks largely to constant vigil by consumer groups and nationwide homebuyers' collectives. RERA will bring in transparency in the true sense only when the remaining 15 states notify the rules without dilution. The impact of these legislations will be seen in the coming quarters.

**Neeraj Sharma**
Director
Grant Thornton Advisory Private Limited

# News updates

## No additional burden on homebuyers under GST[1]

The benefits of investing in under-construction properties will outweigh the benefits of investing in ready-to-move-in homes under the new Goods and Services Tax (GST) regime. The actual GST rate on under-construction properties is 18 per cent. However, the effective tax on such properties would be 12 per cent, as under the new regime, developers will be allowed input tax credits. The government has told developers to pass on any benefits that they may avail under the new tax regime to the homebuyers.

## Home builders switch to equity funding in RERA regime[2]

Top residential developers bracing for a new regulatory regime are scouting for long-term equity capital to finance their projects from the stage of buying land. According to property advisers and developers, tough deadlines under the Real Estate (Regulation and Development) Act (RERA) have prompted builders to seek long-term equity partnerships with PE firms to reduce risks, focus on execution and avoid refinancing loans mid-way through the project cycle, rather than settle for structured debt providers seeking short-term profits. Property advisors also agreed that equity capital has been coming in the form of platform-level deals, where PE funds and builders partner to invest in multiple projects. However, these transactions are restricted to only large and branded developers.

## Projects up to 1.5L sqm need no green nod[3]

Building and construction project with built-up area of up to 1.5 lakh sq. meters in Delhi will not need green approval from the Ministry of Environment, Forests & Climate Change. The local authorities concerned such as Delhi Development Authority, the three civic bodies and NDMC have been delegated power to enforce the environmental conditions, which will cut down the wait significantly.

## Affordable housing emerging as the new focus of housing finance firms[4]

Affordable housing has the potential to be clean and quick, leading to lower operational and marketing costs and helping create a new category within the realty space. According to a report by domestic ratings agency CRISIL, affordable homes are altering mortgage market dynamics. It estimates that the segment was worth around Rs 1.6 lakh crore as on 31 March 2017, accounting for over 25 per cent of all housing loans. LIC Housing Finance said it has identified affordable housing as the focus area for the current year and has devised strategies and action plans for greater emphasis on the sector. The rollout of GST is not expected to lead to an increase in the cost to the buyers. Moreover, infrastructure status to the affordable housing segment, credit linked subsidy scheme and RERA are considered crucial moves for its growth.

## 'Diluted' RERA gets over 1,700 objections[5]

The 'diluted' draft Haryana Real Estate (Regulation and Development) Rules notified by the government have received over 1,700 objections and a missive from Union Minister of State Rao Inderjit Singh to Chief Minister Manohar Lal Khattar, asking him to re-examine it and carry out necessary modifications. Certain provisions in the draft rules were not in consonance with the letter and spirit of the original Act, citing nine rules 'diluted' to the detriment of home buyers and advantage of builders.

## How GST will impact under-construction projects[6]

GST is aimed at reducing the tax complication and the overall burden of the double tax burden from the economy. The construction of a complex building, civil structure, or a part thereof, intended for sale to a buyer, wholly or partly, is subject to 12 per cent tax with full input tax credit (ITC) subject to no refund in case of overflow of ITC. Thus, the basic construction cost may come down a little, but as the input tax credit is limited to 12 per cent, there may not be much saving in the high-end specification construction.

## Realty Act rollout from 1 May, but states yet to frame rules[7]

State governments are supposed to appoint regulatory authorities to implement the rules framed under the Act. But so far, only one state i.e., Madhya Pradesh, has set up a permanent regulatory authority. Three UTs, Delhi, Andaman & Nicobar Island and Chandigarh, have set up interim authorities. The Act specifies that all existing projects must be registered with the state's regulatory authority by July 2017, and that no new project can be launched without this registration. So far, only six states and six union territories have notified the rules. The remaining 20 are yet to do the same.

## The Real Estate Investment Trust (REIT) opportunity: REIT will expand the universe of quality real estate[8]

Commercial real estate has been an integral part of the investment portfolio of large investors. It is now witnessing fresh investments as the yields on the commercial side are much higher at 8-10 per cent as against 2 per cent in residential real estate. The formation of REITs will further expand the universe of quality real estate, and give developers an opportunity to exit projects. Commercial real estate properties, such as shopping malls and office buildings, are considered REIT complaint. This is because they already have tenants and their income stream is relatively easier to gauge.

As the value of these projects increases with the improving economic outlook and rising demand, REITs are expected to hold on to their assets for the long term. Investors will benefit from dividends that Indian REITs (in accordance with global norms) will be required to pay out—with 90 per cent of their income generated from their stable assets—at least twice a year. In the past year's Union Budget, government had removed the dividend distribution tax (DDT) on special purpose vehicles (SPVs).

Further, the investment cap in under-construction projects was raised from 10 per cent to 20 per cent.

As per estimates of some real estate consultants, as much as 229 million square feet of office space is REIT complaint. Even if half of this were to list in the few years ahead, the total REIT listing in the next five years could be worth Rs1.25 trillion.

## Realty Sector Gets 19 investments Worth USD 3.4 billion in First Quarter[9]

Real estate companies and projects attracted 19 investments totaling an announced value

of USD 3.41 billion in the first quarter ended March. The value of investments in the March quarter was up 2.7 times from the year-ago period, which had seen investments worth USD 1.25 billion across 18 transactions, highlighted data from Venture Intelligence. The commercial segment, led by GIC's USD 2.14 million investment in DLF's rental arm, attracted an all-time high investment worth USD 2.6 billion across five transactions during the March quarter.

## India to attract USD 4.2 billion investment in realty sector this year: Report[10]

India is expected to witness nearly USD 4.2 billion new capital in the realty sector in 2017, says Cushman & Wakefield. New capital available for global real estate investment in 2017 is estimated at USD 435 billion, out of which India is expected to get nearly USD 4.2 billion. The global real estate investment has fallen by 2 per cent compared to the peak of USD 443 billion in 2016. According to the report, India's office space provides great promise to global investment funds.

## Real estate investors renegotiating existing contracts fearing two regulatory changes[11]

Private equity and strategic investors are renegotiating their existing contracts, fearing that investments in some of the real estate companies and projects would be adversely impacted due to two new regulations – the thin capitalisation introduced in the budget and the Real Estate Regulatory Act (RERA).

Thin capitalisation will not allow companies to claim tax deduction for interest paid on foreign debt above 30 per cent of their EBITDA (earnings before interest, tax, depreciation and amortisation). This would lead to additional tax burden. Thin capitalisation concept would apply to all companies operating in India beginning April 2017.

## Centre to build 1 crore houses under PMAY-G by 2019[12]

On 31 March 2017, the Government approved the construction of 1 crore houses with the financial implication of Rs. 81,975 crore for the period 2016-17 to 2018-19. It has been estimated that 2.95 crore more houses, with an anticipated variation of ±10 per cent, would need to be constructed to achieve the objective of 'Housing For All' by the year 2022. In the first phase (from 2016-17 to 2018-19), 1 crore houses are targeted for construction under Pradhan Mantri Aawas Yojana – Grameen (PMAY-G) and targets for remaining period will be decided later.

## Home buyers disappointed by unchanged repo rate[13]

Homebuyers and real estate developers hoping for a sharp fall in lending rates have been left disappointed by the Reserve Bank of India (RBI)'s decision to keep policy rates unchanged. Realty sales have dropped by 30 percent after the government decided to withdraw high value notes in November last year that led to cash crunch in the banking system. Industry was expecting a 0.25 percentage cut in the repo rate in the wake of demonetisation, leaving sufficient liquidity in the banking system.

## Realty prices to fall, says Survey[14]

The Economic Survey 2016-17 analyses the impact of demonetisation on various sectors. The Survey says that going forward, prices could fall further as investing undeclared income in real estate becomes more difficult. Importantly, the tax component could rise, especially if GST is imposed on real estate, the Survey points out. Post demonetisation, real estate prices have declined, as wealth has fallen, while cash shortages impeded transactions.

## Union Budget 2017 - Impact on Real Estate in India[15]

The Union Budget 2017 has proposed several positive measures to strengthen the health of the Indian real estate sector. The key initiatives include: affordable housing getting infrastructure status; implementation of Housing for All (Pradhan Mantri Awas Yojana or PMAY), Allocation to PMAY increased from Rs 15,000 crore to Rs 23,000 crore, developers to get tax relief on unsold stock, holding period for capital gains tax for immovable property reduced from three years to two years. Developers can avail tax break of year after the receipt of completion certificate for the unsold stock.

A new FDI policy, which is under consideration, will help the sector get access to a considerably larger pool of funds than it had so far.The National Housing Bank (NHB) will refinance Rs 20,000 crore housing loans. Fund allocation for development under AMRUT and Smart Cities projects has also been increased to Rs 9,000 crore.

## Resale prices down 30 per cent as realty sector feels the heat[16]

Prices of residential units in the re-sale market have fallen by up to 30 per cent in some locations as the real estate sector gets more realistic post-demonetisation in an already tepid environment. The difference in price between primary and secondary residential markets is increasing, following the over-supply of properties and eagerness of investors to cash out, making re-sale properties a good option for home buyers.

## Affordable housing is a Rs 6.25 trillion opportunity[17]

The market potential of affordable housing projects in the country is expected to touch Rs 6.25 trillion by 2022 due to demand emanating from a growing population and the disparity that exists in household income and high real estate prices. This demand is likely to remain stable even during the period of downturn, says rating agency ICRA.

## How drones will solve land disputes in NCR district[18]

Two dozen satellites, a specially modified short range drone and a team of experts have been at work for over two years to create a digital map of the district for the first time with geo referencing at land holding levels. This has helped identify errors that crept into official land department records over the years. While giving these digital maps legal validity is the next big challenge, the plan is to progressively connect several government databases to this digital map. A linkage to AADHAR numbers for example can generate land parcel IDs that can be used to instantly verify land sale and purchase transactions. The end product could be a public website that can be a one stop shop before any land transaction.

# Regulatory updates

## Introduction on GST

At the stroke of midnight on 30 June, India adopted a new unified tax regime in the name of Goods and Services Tax ("GST"), abolishing existing indirect tax structure with a view of enhancing the ease of doing business in India. The adoption of GST has been hailed as the single largest tax reform in the history of India.

While the implementation of GST was largely considered a welcome move by the industry, the same has not been without its fair share of issues and challenges such as obtaining multi-state registrations, interpretation of provisions, determining the place of supply, transitional issues, etc. Almost all sectors of the economy have been affected by such issues, some more severely than others.

### Real Estate Sector under GST

Real Estate is one of the most dominant sectors contributing towards the economic growth of the nation. Since inception, this sector has been in the limelight due to various levy of taxes, restriction of credits, lack of transparency, unorganised sector etc. GST will have sizable impact on real estate sector and primarily it is expected to bring in transparency and simplicity. This sector will notice the significant changes as it will move forward with a single levy tax – GST, instead of various taxes like VAT, Service tax, Entry Tax, etc. under earlier regime.

We have briefly discussed the implications of the GST regime on the Real Estate Sector under the below points.

### Benefits under GST

- The highlight of the GST regime for the realty sector is the seamless availability of Input Tax Credits (ITC) paid on inputs, capital goods and input services. Under the erstwhile regime, builders would end up paying a multitude of taxes such as VAT, Central Excise, Entry Tax, LBT, Octroi, Service Tax, etc., the credits of which were not freely available against the output tax liability. However, the GST regime provides for full ITC eligibility to construction service, thereby eliminating the inefficiency ushered in by the cascading effect of taxes.
- The government has directed developers to pass on the benefits of possible reduction in construction costs due to expanded ITC eligibility to the home buyers and not retain the same for their benefit. This could result in the prices of real estate going down by a small margin in the long run.
- GST will prove to be a positive sentiment booster for the residential sector. While the prices of residential real estate may not come down in the short term, it will certainly help in improving the perception of the sector on the back of a simplified tax structure and accountability being fixed at every stage.
- Under the GST regime, owing to the removal of state barriers, construction sector will experience a considerable relief in terms of transportation of material, machinery etc. from one state to another.

## Issues under GST

- In case of the realty sector, GST is not the only Indirect Tax payable by a customer. Depending on the state, levies such as Stamp Duty, Registration Charges, etc. shall also be payable. Since these charges are not subsumed within GST, the same adds up to the cost of the final consumer.
- Under earlier tax regime, Interest on delayed payments by customers was exempt from service tax however under GST, such interest is considered as part of consideration and would be subject to tax which would marginally increase the cost of the property
- Although full ITC eligibility has been provided against GST payable on the sale of real estate, the same shall not be available if the constructed property is given on lease instead. Consequently, this would add up to the cost of the property. Further, the rate of tax for such renting has increased from 15 per cent service tax to 18 per cent GST.
- Transfer of consumables, inputs, capital equipment, etc. from one site to another is quite common in this sector. In case such goods are transferred between two locations having separate registrations, the same shall be treated as supply and GST shall be payable. This leads to an increased effort in terms of valuation, invoicing, compliance, etc. not to mention blocking of working capital for the company. Under the previous regime, such 'Branch Transfers' could be done without the payment of taxes.

## Challenges under GST for Developers

- Developers will have to rework their costing from scratch in order to ensure that the benefit of reduced costs is passed on to the customers to avoid defaulting under the anti-profiteering rules. This could prove to be a hassle for many developers especially in case of projects that are ongoing as on the appointed day of GST roll-out.
- Due to the concept of decentralised registration under GST, every realty player will be required to obtain registration in every state where construction projects have been undertaken. Under the previous regime, although state wise registration under VAT was required, the same was not necessary under service tax, which provided a substantial relief to assesses in terms of compliance hassle.
- Due to multiple registrations in various states, it will be an arduous and a tedious task for the companies to execute with the compliance requirements such as returns, maintenance of separate records, etc. for each state.
- GST is payable under the reverse charge mechanism on procurement of any goods / services from an unregistered dealer. The registered person would be required to issue a self-invoice and discharge the liability which shall be eligible for credit in the following month. This would entail an additional compliance burden as well as a working capital issue. Developers might have to reengineer their supply chain in order to procure inputs from registered dealers to avoid the above hassles.

## 1. The supply curve

RERA will play a fundamental role in determining the economic framework of demand and supply in the real estate industry. Supply will reduce because developers will now launch only those projects which they are likely to complete within the promised timeframe. (Post RERA, the penalty for time over-runs by developers are huge.)

## 2. The demand curve

Demand will remain robust but witness a redistribution. Since risk on residential investments will be mitigated, so will reward. This is why we will witness the incidence of high risk-high returns investors thinning down on the ground. Investors will also be low-key because they need to see increase in prices accompanying increase in sales - something they have not witnessed of late.

Instead, there will be more end-users in the market, as consumers' confidence in developers is a critical component of market sentiment and these are the primary beneficiaries of greater transparency. The end users will largely hail from the middle-income and low-income categories who will look closely at affordable housing. With the government's incentives for affordable housing and the easy availability of home loans, we expect end-user driven demand to pick up. With a pulling-back of supply and a continuous robust demand from end-users, the residential market will soon witness a marginal uptrend in residential prices.

### 3. Costs to the developers

Apart from the demand and supply dynamics, the holding cost for developers is likely to go up. Essentially, no new projects can now be launched before all approvals are in place. The window of price escalation between 'pre-launch' and 'official launch' which was earlier available to developers is now shut. This additional holding cost will potentially be passed on to buyers, adding to their overall cost of purchase. Also, administrative costs are expected to increase on account of implementation of systems to have a more robust mechanism to make data available to comply with the new regulatory requirements.

### 4. Cost of land

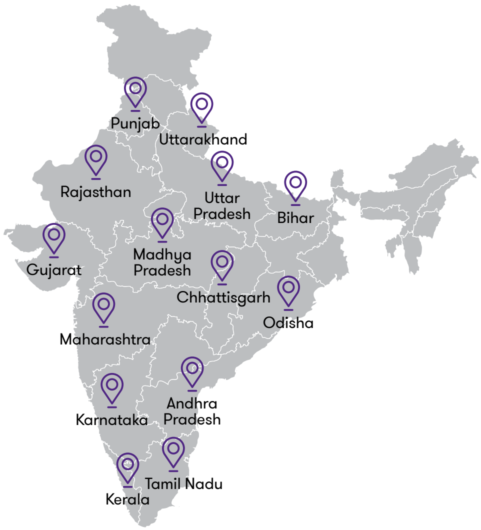
The cost of land will go up within city limits as post demonetisation, there will be no leeway for diversion of surplus cash from other businesses towards purchase of land. The force-fed transparency post RERA will further make it necessary for developers to use legal funds to purchase land. This will add to their overall input costs and therefore lead to increased end product prices.

On the positive side, end-user demand is stable and some recent reductions in home loan rates by banks will see that the trend continues. Overall, we anticipate a marginal increase in pricing for residential units in a market backed by genuine buyers and a lower yet predictable and good quality supply pipeline.

# RERA headway[2]

States are to implement provisions of RERA by framing rules and regulations. Therefore, RERA will play out differently in different states.

## State-wise RERA implementation




Despite continuous monitoring and follow up by the Ministry of Urban Development and Housing, Government of India, only 14 states (Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and Uttarakhand) and all union territories (Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman and Diu, Lakshadweep, National Capital Territory of Delhi and Puducherry) have notified their respective Real Estate (Regulation and Development) Rules, 2017. The central Real Estate (Regulation and Development) Act (RERA) was notified on 1 May 2016, and has come into effect nationwide from 1 May 2017. States were asked to prepare and notify respective rules in tandem with the Act, so it could be effectively implemented.

CRISIL Research compared the notified state specific rules with the central Act, and found that many states have either diluted a few crucial aspects of the Act, or given insufficient emphasis to its provisions in their rules, while half of the states lag behind in even notifying the rules.

Implementation status aside, certain pertinent issues arise from RERA, and the rules so far notified by a few states. Some issues which need clarity are listed here:

### Ongoing projects

While most provisions of the state rules are in line with RERA, one key concern is the expansive definition of ongoing projects provided under the rules notified by few states.

### Marketing and sales prohibition and registration requirement

Given that RERA only prohibits sales and marketing of unregistered projects, it is safe to conclude that sold-out projects pending grant of possession until issue of completion certificate, need not register under RERA.

### Registration timeline

In states where neither the RERA authority nor an interim authority is in place, and in the absence of an express close shops till registration rule, developers can continue marketing and sales activities for their ongoing projects till the end of the three-month timeline (i.e. 31 July 2017).

However, states like Uttar Pradesh and Haryana have also included, within the ambit of ongoing projects, those projects for which an application for a completion certificate has been made by the developer. This has led to developers rushing to apply for the completion certificate to seek an exemption from RERA.

The constitutional validity of the aforesaid deviations under the state rules is currently under debate. Given that any property situated in a state is a subject of legislation by the relevant state government, there is room to argue in favour of these deviations.

While the position on this is yet to be settled, the courts and central government have, in certain cases, reached out to such states and directed them to align the provisions of their state rules with the central legislation.

# Emerging trend of co-working spaces[1]

Co-working is the use of an office or other working environment by self-employed or working people for different employers, to share ideas and knowledge.

Although major co-working operators leased only 1.2 million square feet in 2016, which accounted for 3 per cent of the overall leasing volume, a recent report by Colliers International forecasts that the sector is expected to lease 8 to 9 million square feet by 2020. The report also mentioned that the concentration of co-working space will intensify further in Bengaluru, Mumbai and Delhi/ NCR due to the availability of adequate infrastructure and opportunities for start-ups in those cities. Hyderabad may also pick up the pace as companies such as Apple, Google and Amazon, have recently taken large office spaces in the city, creating further opportunities for start-ups and SMEs. Among Tier II locations, cities that have a high presence of technology companies such as Pune, Jaipur, Chandigarh, Ahmedabad and Kochi should also witness the emergence of co-working hubs.

The report also stated that growth of co-working space pose no threat to property developers. On the contrary, they can capitalise on the high demand for functional, flexible working space. Indian developers such as K Raheja, RMZ Corp and Embassy Group are some of the frontrunners who appreciate the opportunities offered by co-working space.

As India is still on the verge of witnessing international players' presence, it is expected that the industry will see much more experimentation regarding amenities and facilities in such establishments.  The changing dynamics will force developers/ operators to differentiate their products in terms of amenities, offerings and quality of space. It is likely that we would see more and more strategic alliances between property owners and operators and emergence of newer models. India offers a great opportunity for co-working space operators to profit from rising demand for flexible, innovative and collaborative workspace designs.

In our view, a strategic alliance between co-working operators, developers and investors will emerge as a new trend in India in the short to medium term.

Co-working spaces are improving collaboration and stress-free working environment which helps develop an efficient and a "happy" workforce. Not just the international operators, now the domestic players, are taking the concept to the next level as well.

In 2016, the information technology (IT) industry represented around 58 per cent of the total office demand in India with 41.6 million square feet of office space leased in top nine cities. With millennials representing the largest generation in the workforce and an unprecedented focus on new workplace designs, work styles, and work culture, flexible and specialised workspaces will frow faster. The co-working industry is mainly dominated by start-ups followed by media, e-commerce companies and a few corporates and multi-national companies (MNCs).

Currently, co-working operators have a small footprint in India, but they are slowly carving out a significant space in the real estate industry. Although factors such as flexibility, networking opportunity and cost-effectiveness will continue to drive demand for co-working spaces, the need for swing spaces, transitional workspaces and office solutions in multiple locations will further fuel the demand of co-working spaces.

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Some of the key players in this space, across major cities, are as follows: (sq. ft.)

| Company/ City | Mumbai | Bengaluru | Delhi/ NCR | Hyderabad | Jaipur |
|---|---|---|---|---|---|
| WeWork | 225,000 | 247,000 | - | - | - |
| CoWrk | - | 172,000 | - | - | - |
| 91 Springboard | 106,000 | - | - | - | - |
| The Executive Centre | - | 30,000 | - | 28,000 | - |
| Skootr | - | - | - | - | 27,000 |
| Regus | 25,000 | - | - | - | - |
| Avanta Business Centre | - | - | 25,000 | - | - |
| Awfis | - | - | 35,000 | - | - |
| Smartworks | - | - | 15,000 | - | - |

Source: www.qz.com

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# Buys and ties

### Some of the significant PE deals

| Investor | Investee | % stake | USD million |
|---|---|---|---|
| The Xander Group Inc. | Shriram Properties Private Limited- Shriram Gateway IT SEZ | 100% | 350 |
| Canada Pension Plan Investment Board | The Phoenix Mills Limited- Island Star Mall Developers Pvt. Ltd | 49% | 250 |
| Blackstone Group | First International Financial Centre- BKC | Not available | 128.79 |
| Piramal Fund Management | Vatika Group | Not available | 62.5 |
| Skootr | - | - | 27,000 |
| Regus | - | - | - |
| Avanta Business Centre | 25,000 | - | - |
| Awfis | 35,000 | - | - |
| Smartworks | 15,000 | - | - |

### Some of the significant PE Exits

| Investor exited | Investee Company | USD million | Exit Route | Exit % |
|---|---|---|---|---|
| L&T Realty Limited | Pragnya Group | 28.7 | Open market transaction | 51% |

### Some of the significant M&A deals witnessed in the construction sector

| Acquirer | Target | US $ million | Deal Type | % Stake | Source |
|---|---|---|---|---|---|
| Fairfax India Holdings Corp. and Fairfax Financial Holdings Ltd | Bangalore International Airport Ltd | 200.53 | Increasing stake to 48% | 10% | Inbound |
| Abertis Infraestructuras SA | GMR Jadcherla Expressways Private Limited (74%) and Trichy Tollway Private Limited (100%) | 133.09 | Acquisition | 100% | Inbound |
| Virtuous Retail South Asia Pte. Ltd | Gumberg India Pvt. Ltd- The North Country Mall | 108 | Acquisition | 100% | Inbound |

### Some of the significant QIP

| Investee Name | USD million | % Stake |
|---|---|---|
| Brigade Enterprises Limited | 76.92 | N.A. |

### Some of the significant IPO

| Company Name | Issue Price | Equity Offered | Issue size (In Rs Mn) | USD million |
|---|---|---|---|---|
| PSP Projects Ltd | 210 | 10,080,000 | 2,116.80 | 33.08 |

Source: Grant Thornton Deal Tracker

# Market speak

We interviewed **Mr. Ravi Aggarwal** – Co-founder and Group Managing Director, SignatureGlobal Group to seek his views on the recent developments in the real estate sector. Below are the excerpts from his interview.

### What is your perpective on the current state of real estate sector?

The current state of real estate sector seems to be beneficial for both the buyers and developers. The advent of regulating acts like RERA would give a positive approach to the homebuyers for the developers. The buyers and developers would move towards the transparent and accountable deals in the real estate climate. The reduction of interest rates on home loan by the financial institutions is yet another sign of relief for the first time home buyers.

### The impact of GST and RERA on the pricing of real estate in the long run?

If the property comes under the under constructed section, then the buyer will have to pay the 12 per cent GST, else the property would be exempted from the GST. Buyers going for the ready to move in properties would enjoy the perks. However, RERA would be assuring credibility and transparency in the sector. By my reckoning, depending upon the stage of construction the price in the real estate units would vary.

### Can affordable housing provide a strong push to the real estate sector?

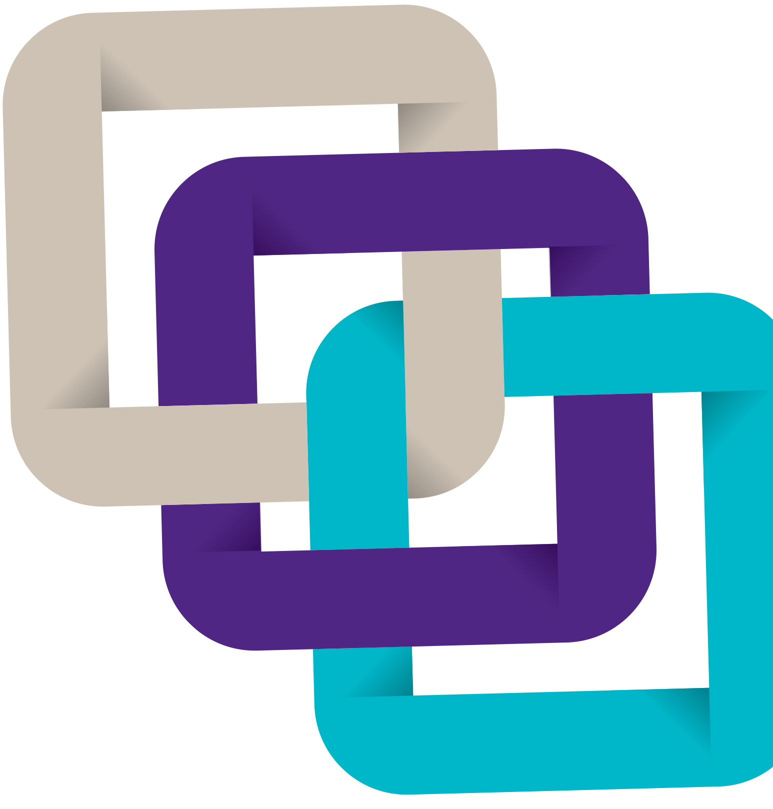
According to latest survey, the total of 50 percent of sales was contributed by low cost housing projects. The survey said that the launches during the October-December 2016 were mainly the affordable sections. During last 6 months, Signatureglobal has sold more than 4000 units of affordable homes, which clearly defines the buzz in the affordable housing market. Also, the affordable housing projects are not only fueling the sales but also making it possible for the economically weaker sections and low-income groups in owning their own houses. We can clearly see the positive impact of affordable units in the real estate wing. However the latest amendments in the real estate policies are equally responsible for growth in the market.

### Are you satisfied with the government's current initiatives? What more do you expect from the government?

From the introduction of Pradhan Mantri Awaas Yojna (PMAY) to the implementation of RERA, we think that the government has been giving its best. In my opinion, it's due to the government's push that various financial institutions came up with reduced interest rates on home loans. The overall functioning of government for the affordable housing units is very appropriate. As far as our expectations are concerned, the government should reduce the GST rates on the affordable housing as the buyers would be paying 12 per cent GST for under constructed units in affordable housing too.

### How do you see the demand patterns of affordable housing?

As per latest survey, India already has a housing shortage of approx 2 crores in urban areas and the reason behind this being the lack of affordability factor in the properties. The affordable housing units are a source of relief for the people who couldn't purchase an own house. The real estate sector usually had high-priced units that led most of the sections to remain homeless and rely on rented property. In the last FY 2016-17, Signatureglobal has sold more than 2000 units of affordable homes and has a target of selling more than 10000 units of Affordable homes in FY 2017-18. As a step towards Shree Narendra Modi's vision of "Housing for all by 2022", Signatureglobal is targeting 1,00,000 affordable homes by 2022. As developers like us are introducing new projects based on the interest of such sections, more and more people are getting familiar with the existence of affordable property thus leading to the increased demand for the same.



# The way forward

Next 8-12 months will be very interesting for the Real Estate sector, since two major legislations would impact the sector i.e. GST and RERA.

While, it is a common belief that GST should have a positive impact on the sector (eventually leading to a price reduction), however, it is to be seen how some of the provisions of GST i.e. anti-profiteering mechanism will evolve and impact the sector.

When it comes to RERA, developers and real estate brokers have been rushing to comply with the registration requirements by 31 July in spite of not all the states being ready with the final rules and the IT infrastructure to manage the significant volume of data. One of the key provisions of RERA is the definition of ongoing projects under the Central Act which has been tweaked by some states. It will be interesting to see how regulators monitor the compliances relating to ongoing projects and how fair and fast is the adjudication process will work as envisaged as one of the key objectives of this reform.

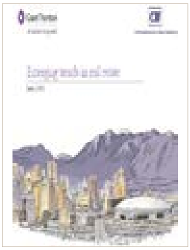
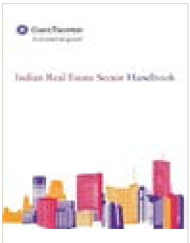
Given the current market conditions, demand is expected to be muted with limited supply and reduction in the new launches in residential real estate. Commercial Real estate has been steadily getting strong valuations and is expected to grow/attract the investors. Launch of REITS will further push the demand/valuations of commercial real estate.

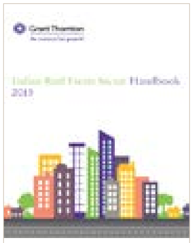
Most of the experts' believe that affordable housing will be the next big thing for Real Estate. While the government has provided a strong platform for affordable housing, the market conditions will finally decide the success for affordable housing. The developers also need to embrace the segment of affordable housing.

# Insights for real estate leaders in India

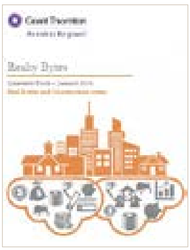
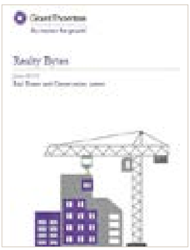
Grant Thornton in India strives to speak out on matters that relate to the success and sustenance of your business. Through our publications, we seek to share our knowledge derived from our expertise and experience. The firm publishes a variety of monthly and quarterly publications designed to keep dynamic business leaders apprised of issues affecting their companies such as:

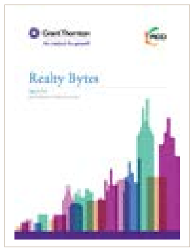
### Annual Handbooks

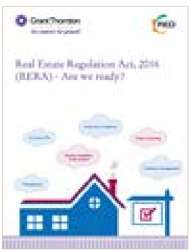


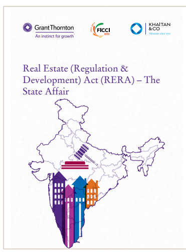

### Realty bytes: Quarterly publication on key developments of the sector


### Other thought leadership publications





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# Acknowledgements


For further information, please write to:

## rec@in.gt.com

| Editorial review | Design |
|---|---|
| Samridhi Jamwal | Gurpreet Singh |



**For further information, please contact:**

**Spriha Jayati**
E Spriha.Jayati@in.gt.com
M +91 93237 44249

# Notes

# Notes

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# Contact us

**To know more, please visit www.grantthornton.in or contact any of our offices as mentioned below:**


**NEW DELHI**
National Office
Outer Circle
L 41 Connaught Circus
New Delhi 110001
T +91 11 4278 7070

**BENGALURU**
5th Floor, 65/2, Block A,
Bagmane Tridib, Bagmane
Tech Park,
C V Raman Nagar,
Bengaluru - 560093
T +91 80 4243 0700

**CHANDIGARH**
B-406A, 4th Floor
L&T Elante Office Building
Industrial Area Phase I
Chandigarh 160002
T +91 172 4338 000

**CHENNAI**
7th Floor, Prestige Polygon
471, Anna Salai, Teynampet
Chennai - 600 018
T +91 44 4294 0000

**GURGAON**
21st Floor, DLF Square
Jacaranda Marg
DLF Phase II
Gurgaon 122002
T +91 124 462 8000

**HYDERABAD**
7th Floor, Block III
White House
Kundan Bagh, Begumpet
Hyderabad 500016
T +91 40 6630 8200

**KOCHI**
7th Floor,
Modayil Centre point
Warriam road junction
M. G. Road
Kochi 682016
T +91 484 406 4541

**KOLKATA**
10C Hungerford Street
5th Floor
Kolkata 700017
T +91 33 4050 8000

**MUMBAI**
16th Floor, Tower II
Indiabulls Finance Centre
SB Marg, Elphinstone (W)
Mumbai 400013
T +91 22 6626 2600

**MUMBAI**
9th Floor, Classic Pentagon
Nr Bisleri factory, Western
Express Highway
Andheri (E)
Mumbai 400099
T +91 22 6176 7800

**NOIDA**
Plot No. 19A, 7th Floor
Sector – 16A
Noida 201301
T +91 120 7109 001

**PUNE**
3rd Floor, Unit No 309
to 312
West Wing, Nyati Unitree
Nagar Road, Yerwada
Pune- 411006
T +91 20 6744 8800

**For more information or for any queries, write to us at contact@in.gt.com**

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