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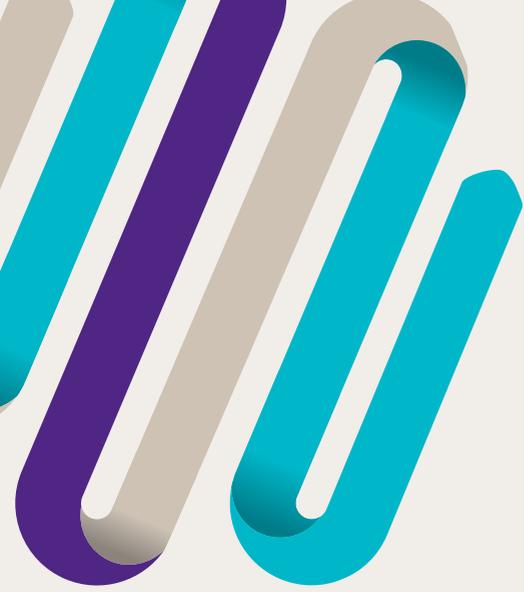
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# Realty Bytes

Real Estate and Construction Sector

April 2018





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# Foreword

The past 12-18 months have witnessed the implementation of some path-breaking regulations, which are now showing signs of stabilisation.



The real estate sector has embarked upon a journey to transform the landscape of the sector, bring back the customer confidence and create a solid platform for its role in building the nation. The past 12-18 months have witnessed the implementation of some path-breaking regulations, which are now showing signs of stabilisation.

May 2018 marked one year of RERA implementation, and we are already seeing signs of regulators setting the tone in their states, by facilitating matters to their conclusion. Some states are also catching up in terms of getting the right infrastructure and skills. Markets are showing promising trends, and the residential numbers are encouraging, with the affordable segment leading the way.

On the offices front, there have been some large transactions, with leading developers joining hands with global majors in both NCR

and MMR regions. These transactions further echo the desire of the players to go for REIT, sooner than later.

Another interesting trend is large corporates, otherwise successful in their journeys and with large land parcels, exploring the real estate sector for a potential diversification. This further supplements the potential the sector holds in the times to come.

**Neeraj Sharma**

Director

Grant Thornton Advisory Private Limited

# News updates

## 27,000 projects registered under RERA, says forum

Around 27,000 projects across the country have been registered under the Real Estate (Regulation and Development) Act, according to the data from the Forum for People's Collective Efforts (FPCE). The FPCE has been formed by pan-India homebuyers' pressure group Fight For RERA and it has represented home buyers in all the cases pertaining to RERA. Approximately 17,000 applications for registration of agents have been received by various authorities data showed. Of the total number of projects registered, nearly 18,000 are in Maharashtra, one of the first states to implement the Act. That compares with 2,350 in Uttar Pradesh, the second in the list, and more than 1,600 each in Gujarat and Madhya Pradesh. Karnataka has registered around 1,000 projects. Haryana has registered around 400 projects.

## TCS leases 1 million sq ft office space in Bengaluru

In the largest single office space transaction in the country so far this year, India's top software exporter Tata Consultancy Services has picked up 1 million sq ft commercial realty space on lease at International Tech Park Bangalore (ITPB) from Temasek Holdings-JTC Corporation-owned Ascendas-Singbridge Group, said three persons with direct information of the development.

## WeWork leases 2.25 lakh sq ft office space in DLF Cyber City

DLF has given on lease about 2.25 lakh sq ft of office space in Gurgaon to US-based co-

working major WeWork, sources said. DLF has leased this space to WeWork in Cyber City, Gurgaon, for about Rs 130 per sq ft monthly rental.

## IDBI Bank sells BKC office to Sebi for INR 900 crore

IDBI Bank has informed the stock exchanges that it has sold its office building in Mumbai's Bandra Kurla Complex (BKC) to Sebi for INR 900 crore. The move is part of measures taken by the bank to sell its non-core assets. This is the biggest real estate transaction in BKC since 2013. The bank owned a 2-lakh-sq-ft office space (3.21-lakh super built-up area) in BKC, close to the headquarters of the markets regulator.

## IndoSpace acquires 1.3 million sq ft in Andhra's Sri City

Industrial real estate and logistics park developer IndoSpace has acquired around 1.3 million sq ft of land for an undisclosed amount in Sri City, an integrated business city in Andhra Pradesh. With this acquisition, IndoSpace's total portfolio has increased to 30 million sq ft of developed, under-development, and planned modern logistics and light manufacturing space in India, the company said in a statement.

## 19k eligible for PMAY's affordable home lottery

Nearly 73 per cent of the 26,000 applications for the Centre's low-cost 'Housing for All' scheme have been deemed eligible to enter a lottery for allotment of tenements. The Pune Municipal Corporation (PMC) has

given the 7,000 invalid applicants one month to get their documents in order for them to be eligible for the lottery under the central government's Pradhan Mantri Awas Yojana (PMAY) scheme. Officials said the applicants were told to give appropriate details, but under scrutiny, many applications had documents missing, while some did not even have proper details.

## 52 per cent of land for special economic zones lying vacant: Chaudhary

As much as 23,779 hectares of land, around 52 per cent of the area marked for the development of special economic zones, is lying vacant.

Minister of State for Commerce and Industry C R Chaudhary said that 52 per cent of the notified SEZs land is currently vacant.

## Kotak Realty Fund makes INR 838 crore exit from Lodha's Palava city

Kotak Realty Fund has made an exit worth INR 838 crore from Lodha Developers' township project Palava City on the outskirts of Mumbai. The real estate private equity fund has achieved an internal rate of return (IRR) of 18.75 per cent through this exit in less than 2.5 years.

## Private Equity investments fall 49 per cent to USD 3.7 bn in Jan-Mar 2018

With large deals drying up, private equity

firms invested about USD 3.7 (across 133 deals) during the quarter ended March 2018 down 49 per cent compared to the USD 7.3 billion (across 200 transactions) in the same period last year and down 29 per cent on a sequential basis. The latest quarter witnessed only 9 PE investments worth USD 100 million or more compared to 13 such transactions in the same period last year.

## KKR's realty NBFC to borrow USD 600 million to bolster lending business

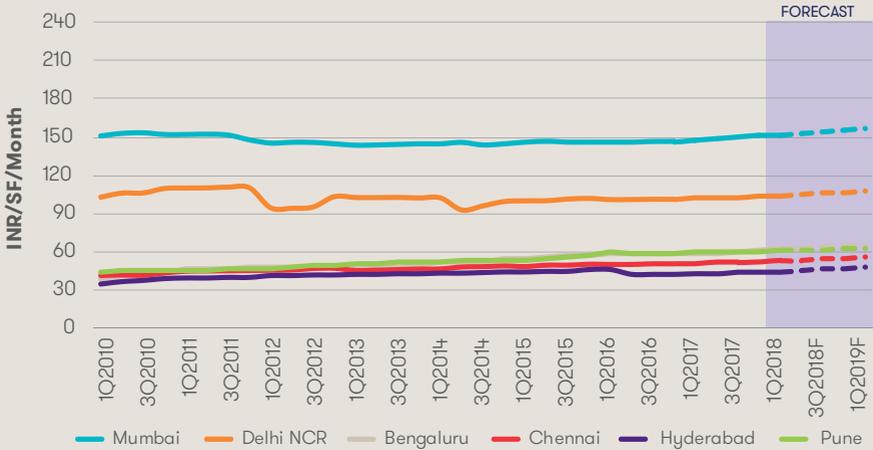
KKR India Asset Finance, the real estate-focused non-banking finance company (NBFC) of global investor KKR, is aiming to raise USD 600 million through debt to bolster its lending business and secure an asset base of USD 800 million in a year, said a source. The move will stand the company in good stead to compete with players such as Piramal Finance and NBFCs such as L&T Finance that are active in lending to property developers.

## Kerala appoints B Ashok as interim RERA

The state government has appointed urban affairs secretary B Ashok as the interim Real Estate Regulatory Authority (RERA), six months after the government had repealed Kerala Real Estate (regulation and Development) Act, 2015, bringing the central act into force in the state. Kerala Real Estate (Regulation and Development) Act Repeal Ordinance, 2017 was promulgated by the governor on 15 July 2017.

# Realty trends

## Average commercial rental value trends



Source: GT India Research

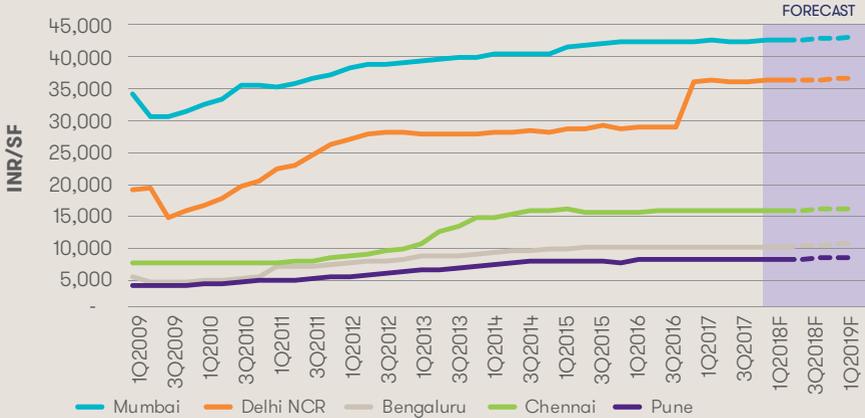
## Pre-committed and built to suit office space drive commercial market in 1Q 2018

During 1Q 2018, IT/ITeS remained the key market occupier across 6 major metros, followed by BFSI, manufacturing and others, including pharma. Bengaluru remained the sweet spot, followed by Mumbai, Gurgaon, Hyderabad, Chennai and Pune. On the supply side developers remained cautious keeping in view the macroeconomic indicators, especially in Grade A office space, where a few pre-commitments were observed. Rents declined by 2-4 per cent QoQ in major metros like Delhi, Mumbai and Kolkata; however, in cities like Bengaluru, Hyderabad and Pune average rents increased to the tune of 3-5 per cent QoQ. Chennai, Gurgaon and Noida remained stable during the quarter.

## GT Forecast

We expect the large pre-committed office space by IT/ITeS occupiers to keep the commercial market active especially in technology-driven cities like Bengaluru, Hyderabad, Chennai and Pune and a few built-to-suit options in Gurgaon region. Several other occupiers will look to consolidate their operations in newer locations due to increase in rents in Grade A supply. In Tier II and III cities like Chandigarh and Ahmedabad, various IT/ITeS firms are looking to expand their operations as resources in these cities are comparatively cheaper than in Tier I cities. As markets have seen rent corrections in 1Q 2018, we expect rents to remain stable in 2Q 2018 in most of the metros.

## Average residential capital value trends



Source: GT India Research

## Indian residential market on the recovery mode in 1Q 2018

Though the commercial cycles were affected last year due to customers holding back their residential purchase decision in the hope of the regulatory changes, in 1Q 2018 some recovery was observed as the sector began to form up with the new standards of accountability, delivery and transparency.

Majority of the demand was observed in the affordable and mid-housing segment, with developers offering discounts and freebies to lure customers. Although markets have resumed to normal, new project launches declined by about 39 per cent across all the major cities to only 12,300 units as compared to 20,300 units in 5 major metros in 1Q 2017. Consequently, capital values remained stable across the cities during the quarter.

## GT Forecast

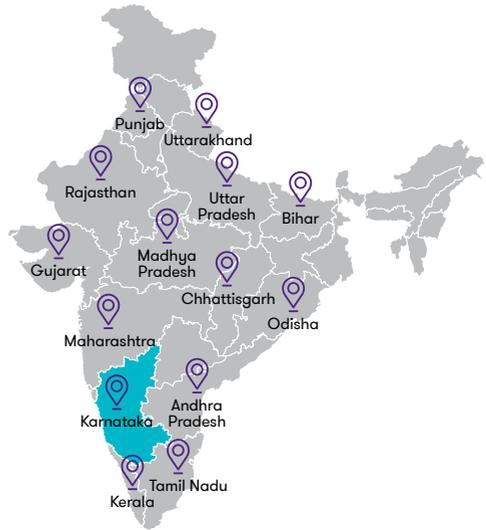
In second half 2018, we expect some movement in new project launches, primarily in the affordable segment, as substantial demand is anticipated. On the supply side, most of the developers have started focusing on completing their ongoing projects and hence large supply is expected across the cities. The central government policy initiatives towards affordable housing will open up the gates for investment in Tier II and III cities. Capital values will remain stable and some price correction is expected in a few metro markets considering the demand and market value of property in the area.

# RERA headway

## KRERA (Karnataka Real Estate Regulatory Act)

In our series of tracking RERA implementation across India, this edition focuses on KRERA. The Department of Housing, Government of Karnataka, is the nodal department for the implementation of RERA in the state of Karnataka. Entire sections of RERA came into force from 1 May 2017, and the Government of Karnataka notified it on 10 July 2017.

We looked at the state of Karnataka in terms of RERA implementation, and some of the key highlights are summarised below:



## Major recent developments in KRERA

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Over **1,540** projects were approved by KRERA

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Over **470** projects are under process and under query at different stages

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About **78** project were rejected due to non compliance with KRERA norms

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Upto **10%** of the total cost as a penalty in case a project is not registered under KRERA

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From 1 April 2018, the process of issuing permanent numbers to all properties registered with KRERA has been initiated

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## 60 rulings

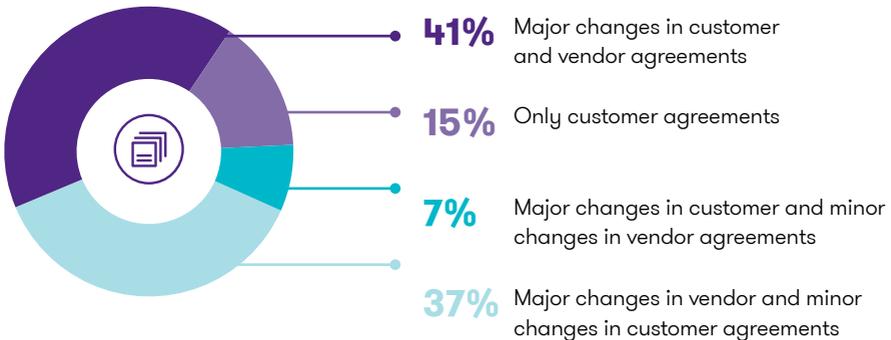
Over 60 rulings have been passed by KRERA regulator on customer complaints, mainly regarding delay in possession

# RERA survey findings: Assessing your compliance preparedness

While majority of the states are aligning with RERA, real estate developers and other stakeholders also need to understand the implications of this new legislation and make appropriate changes to their current business practices and related systems/processes.

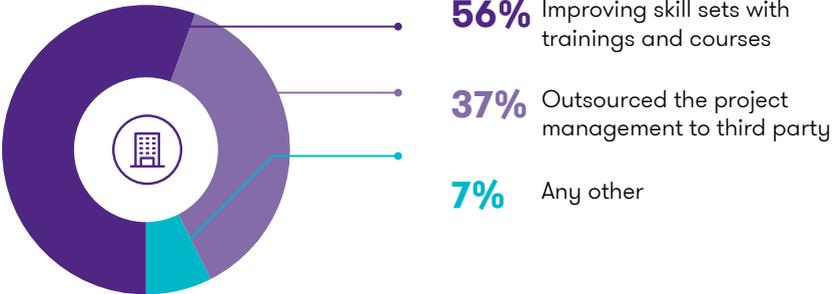
Grant Thornton and industry body FICCI joined hands to conduct a joint survey to assess the readiness on the compliance side of real estate developers and how effectively they are able to embrace this change.

## Q1. Post implementation of RERA which all agreements have undergone a change in their key terms?



**Survey findings:** More than 70 per cent of respondents felt that major changes have been made in both customer and vendor agreements, which establishes that post RERA, developer and vendor share equal liabilities under the contract.

## Q2. Given that the completion of projects has become very critical and time-bound under the post-RERA regime, what has your company done to strengthen project/planning and development teams?



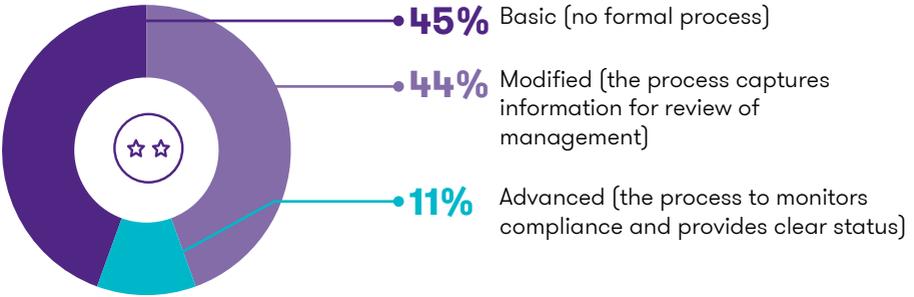
**Survey findings:** More than 50 per cent of the respondents expressed that a focused approach to enhance the skillsets of internal teams with trainings is crucial. 37 per cent respondents felt the need to hire independent experts as Project Management Consultants (PMCs) to manage their projects.

## Q3. What have you done to improve customer experience post RERA?



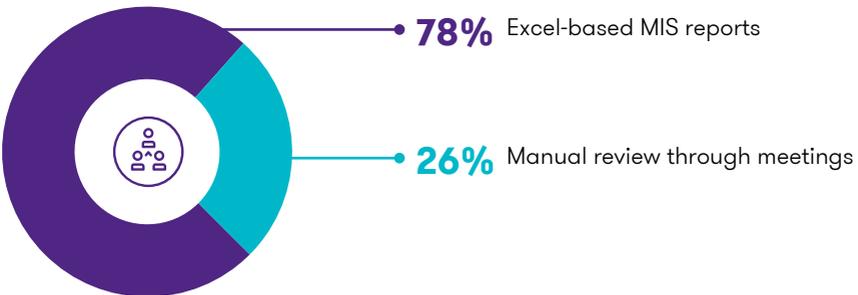
**Survey findings:** Over 75 per cent developers have adopted a typical approach where awareness is built by providing internal training to staff. Close to 11 per cent developers have hired professional firms to manage the CRM function.

#### Q4. How will you rate your compliance mechanism of RERA?



**Survey findings:** Managing RERA compliance is of utmost priority for developers. However, the survey reveals that 45 per cent of the developers have no formal process in place to manage compliance and about 44 per cent have made some modifications to their MIS.

#### Q5. How does board and senior management review RERA compliance?



**Survey findings:** Majority of the board/senior management (78 per cent) are using common methods like Excel-based MIS reporting to review RERA compliance.

# Buys and ties

## Significant PE deals

### PE investments

Investor	Investee	Business description	Sector	% stake	Investment value in USD mn
Blackstone Group Lp	Indiabulls Properties Pvt Ltd and Indiabulls Real Estate Company	Residential/ Commercial	Real Estate	50%	742.12
GIC	Exora Business Parks Limited	Commercial Development	Real Estate	40%	406.25
Altico Capital	Phoenix Group	Residential/ Commercial	Real Estate	N.A.	78.13
Altico Capital	Marvel Group	Residential/ Commercial	Real Estate	N.A.	58.59
Xander Group	Embassy Golf Links Business Park - Office building	Commercial Development	Real Estate	N.A.	54.50
Altico Capital	Pharande Group	Residential/ Commercial	Real Estate	N.A.	37.50
Indiabulls Dual Advantage Commercial Assets Fund and InterGlobe Real Estate Ventures Pvt Ltd	Hines India Ltd - Sky View Corporate Park	Commercial Development	Real Estate	100%	N.A.
KKR	Kolte-Patil Developers Ltd	Residential/ Commercial	Real Estate	N.A.	30.00
Altico Capital	Jatia Group	Residential Development	Real Estate	N.A.	20.31
SIDBI	CE Serviced Offices Pvt Ltd - CorporatEdge	Commercial Development	Real Estate	N.A.	N.A.
ADV Partners	Feedback Infra Private Limited	Infrastructure	Infrastructure Management	N.A.	105.00

## Significant IPOs

### IPO

Company name	Issue price	Issue price	Equity offered	Issue size (In INR mn)	Issue size (In USD mn)
H.G. Infra Engineering Ltd	270	17,111,111	Infrastructure Management	4,620.00	72.19
Karda Construction Ltd	180	4,300,000	Real Estate	774.00	12.09

## Significant M&A deals in the construction sector

### M&A transactions

Acquirer	Target	Seller	Business description	USD mn	Deal type	% stake
DLF Ltd - Adarshini Real Estate Developers Pvt Ltd	Haryana State Industrial & Infrastructure Development Corporation Limited - Udyog Vihar - 11.76 acre land parcel	Commercial Development	Real Estate	230.00	Acquisition	N.A.
Prestige Estates Private Limited	CapitaLand Ltd's stake in six retail properties	Residential/ Commercial	Real Estate	53.70	Acquisition	N.A.
GMR Airports Ltd	GMR Hyderabad International Airport Ltd	Infrastructure	Infrastructure Management	76.00	Increasing stake to 74%	11%
Welspun Enterprises Ltd	National Highways Authority of India - road project	Infrastructure	Infrastructure Management	1.31	Strategic stake	49%

# Market speak

We interviewed Mr. Sudhir Goenka, Chief Finance Officer - Hero Realty (P) Ltd, to understand his views on significant recent regulations in real estate, government policies towards the affordable housing and secondary housing space.



Below are excerpts from his interview:

## **Q1. What has been your company's experience in dealing with two significant regulations – GST and RERA? How do you see the regulation impacting the real estate sector?**

**A1.** The real estate sector has gone through significant changes in the regulatory and economic framework over the last one year with the imposition of GST and implementation of RERA. These 2 significant regulations have impacted the sector at a time when it was still to recover from the impact of demonetisation.

The implementation of GST has changed the taxation scenario in real estate. While the effective taxation has increased from the earlier 5-6 per cent (considering both Service Tax and VAT) to 12 per cent, which has been partially offset by input credit. Credit is now available which was earlier not available (e.g. Excise Duty and CST on materials). These changes will have a positive impact on the overall cost structure of the developers in the long run. However, in case of ongoing projects, there are limits to the extent to which credit is available. In certain cases this has resulted in overall cost of owning a property increasing marginally (due to GST not fully set off by input credit). We had gone through multiple rounds

of training and awareness sessions to explain the differences between the earlier tax structure and the present one to prospective customers. This has taken some time and acceptance is slow, but things are stabilising now.

In terms of RERA, while we were going through the provisions of RERA for finalising the agreement to sell, we realised we had to make limited changes in our existing agreement to make it RERA compliant. It has been our group philosophy to be customer centric and transparent, which is reflected in our agreements with customers wherein each party obligations and rights are clearly defined. The essence of RERA has been to shift the balance of agreement, which was inclined towards developers, to be more balanced and protect the buyers. With RERA being implemented, the confidence among buyers with regard to timely delivery and quality is slowly coming back.

Another aspect of RERA implementation which we experienced is lack of readiness on the part of RERA authorities. Relevant infrastructure and knowledge set was missing initially with authorities, which are now getting accustomed to the new law. One of the requirements of RERA is

to have a registered agreement to sell, in the absence of which the developer cannot demand or receive more than 10 per cent of the consideration. We faced challenges in implementing this on multiple fronts. Initially, the authorities were not clear on the provisions for registration including stamp duties etc.; additionally, it has been a challenge to convince and organise the customers to come forward and register due to both time and cost involved. In the absence of a registered agreement, we were not able to raise demand which otherwise would have become due, affecting collections and cash flows. We believe that these are temporary issues and things will settle down.

It is our view that in the long run, both GST and RERA are favourable for the industry. They will bring about transparency in the sector and are also expected to bring back the confidence. They will also help in controlling the parallel economy in the sector.

**Q2. In 2016-17, the government introduced various policy-level benefits (sector status, CLSS, reduction in GST etc.) to promote affordable housing in the country. Do you think these initiatives are enough to promote affordable housing? What more can be done?**

**A2.** The government's push for affordable housing is a welcome step. Schemes such as CLSS, wherein subsidy of upto 6.5 per cent is provided to the customer (in their loan accounts) based on certain criteria, are expected to push demand for affordable housing. On the ground, our experience has been mixed. While

the benefits have been welcomed by buyers, there are issues in getting loans approved for the strata of customers who seek loans under CLSS, mainly due to eligibility issues. A large number of customers who would be interested in making use of CLSS face challenges in getting loan approvals as many of them are from the informal sector of the economy. We have faced these challenges in our affordable housing projects in Haridwar: while the customers were interested in taking the benefits, loans were not made available. Also the awareness of such schemes is still low among the prospects; this requires continuous training.

On the GST front, although the government has reduced the rate of GST on affordable housing to 8 per cent, there is limited clarity on units/projects which can avail these benefits. The industry is still evaluating the regulations and it will be some time before such benefits are visible and passed on.

**Q3. You have been building projects in secondary cities like Haridwar, Ludhiana and Mohali for a while. How do you see the growth potential?**

**A3.** Secondary markets such as Ludhiana, Mohali and Haridwar among other Tier II and Tier III cities are upcoming markets for the real estate sector. Tier II and III cities have largely been dominated by unorganised players and independent houses/floors. These markets were slow to react to the offerings we had. We see a good potential of growth in these markets as they mature and start accepting the concept and benefit of group housing.

# How RERA impacts you: Are you ready?



## 1. Finance

- Cash flow and liquidity management after (70 per cent Clause)
- Managing project-wise bank accounts and managing withdrawals
- Auditing of accounts (RERA audits)



## 2. Legal and regulatory

- Aligning of agreement/declarations as per RERA
- Registration/Extensions and updating of details on the RERA site
- Vendor management to renegotiate contracts as per RERA
- Liability of promoters/senior management



## 3. Project management

- Strengthen capabilities around execution, monitoring, handover and operations
- Process-compliance audit
- Prioritise design development and delivery capability
- Fix design/plan for 5-year warranties
- Manage minor/major plan changes



## 4. Marketing, sales and CEM

- No promotion before registration
- Clear-cut advertisements; no false promises
- Managing complaints
- Managing cancellations compliance with terms agreed
- Broker management
- Customer interface

**Are you looking for RERA compliance solutions?  
Contact us to know more:**

**Sachin Sharma**

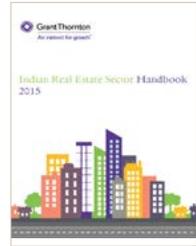
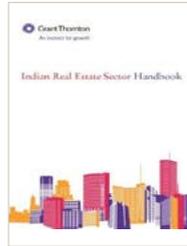
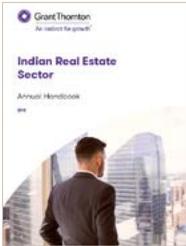
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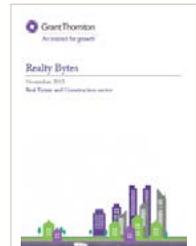
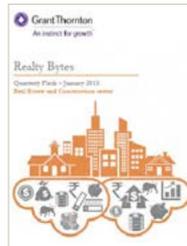
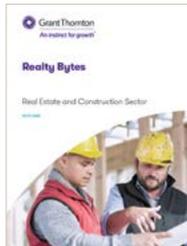
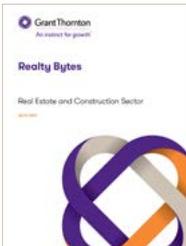
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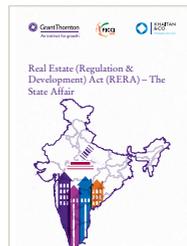
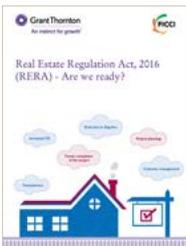
## Annual Handbooks



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



## Other thought leadership publications



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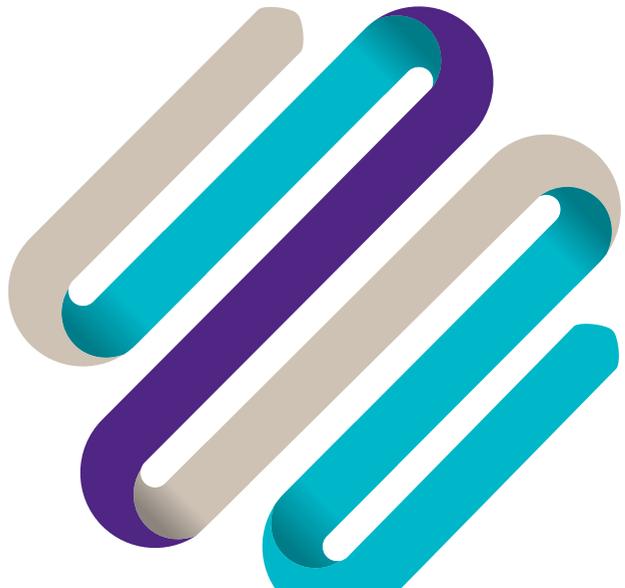
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