Grant Thornton
An instinct for growth™

Unlocking the potential for growth through reforms

Indian real estate sector | Annual handbook 2012

Contents

Real estate sector in India: A snapshot

Past	Present	Future
• unorganised, fragemented industry • characterised as local industry without any regional and national level players • unaccounted sources of finance • no access to public finance • no transparency, weak systems and processes	• largely unorganised, in a phase of consolidation • institutionalisation on pace • corporatisation – national and regional level players • listed real estate companies • global investments • improving transparency	• well-organised industry • marriage of infrastructure with real estate • support by growth-oriented policies • predominant use of technology, including cleantech • transparency, open availability of data

Current size of the Industry: **US$57 billion**

Percentage of GDP: **6.2%**

Next 5 years →

Size of the Industry: **US$105 billion**

Percentage of GDP: **7.1%**

Data source: iSEC Research

Message from National Managing Partner

The year 2013 has the potential to represent a watershed for the real estate sector in India. The government has already introduced a spate of reforms to help the economy recollect momentum for growth, and its cascading impact is bound to be there on the real estate sector as well. Opening up of FDI in organised retail, broadcast and insurance sectors, for instance, will directly catalyse demand for retail and office space in the country.

On the other hand, the two core bills directly impacting the sector—Real Estate (Regulation and Development) Bill and Land Acquisition, Rehabilitation and Resettlement Bill—are expected to be presented in the Budget session of the Parliament. Although some provisions such as establishment of Real Estate Regulatory Authority and disclosure of information in public domain could bring valid fear of the unknown to the developer community, they have the potential to boost sentiments of both investors and end-users in the long term. I believe implementation of the proposed regulations would pave way for winning "industry" status for the sector, and thus improve access to finance and associated benefits.

Through the second edition of this annual handbook we have attempted to provide real estate stakeholders a high-level view of the key developments around the regulatory environment along with a snapshot of the investment scenario in 2012.

Vishesh C Chandiok
Grant Thornton India LLP

Key highlights - 2012

January

Maharashtra Government amends Development Control Rules for Mumbai

February

Housing and Urban Poverty Alleviation Ministry increases the ceiling on the loan amount for construction of houses in urban areas under the Interest Subsidy for Housing the Urban Poor (ISHUP) scheme to Rs 5 lakhs

March

Union Budget 2012 released with provisions for promoting low cost affordable housing projects

April

Bengal Land Reforms (Amendment) Bill 2012, relaxing urban land ceiling laws for setting up industry in West Bengal, passed in the state assembly

May

Government rolls back the proposed 1% Tax Deduction at Source (TDS) on transfer of immovable property

June

The Government proposes several key amendments in the Benami Transactions (Prohibitions of the Right to Recover Property) Act, 1989 and SEZ Act, 2005

July

The State Assembly passes the Maharashtra Housing Regulation and Development Bill, 2011

August

The Karnataka Land Revenue (Amendment) Bill, 2012 passed by the Karnataka Assembly

September

Government notifies foreign direct investment (FDI) in multi-brand retail

October

City Improvement Committee (CIC) of the Pune Municipal Corporation (PMC) approves the new Development Plan for the old city area of Pune

November

The State Government mandates registration of documents relating to power of attorney and sale agreement of property in Tamil Nadu

December

Union Cabinet approves National Land Acquisition and Rehabilitation and Resettlement Bill

Key developments in regulatory environment

Focus on long-term, sustainable growth and development

Regulatory environment: the big picture

The constant evolution of the organised segment of the Indian real estate sector, both in terms of size and growth, in the last two decades has drawn attention towards the need of introducing and improving the regulatory environment. Here below is a snapshot of the significant regulatory developments that would affect the sector in the future.

Real Estate (Regulation and Development) Bill

The Draft Real Estate (Regulation & Development) Bill is expected to be tabled in the forthcoming Budget session of the Parliament. The Bill, which has been pending for some time now, has been developed with an intention to enhance transparency and accountability in real estate transactions, thereby restoring confidence of the general public. The Bill aims to institute a regulatory oversight mechanism for facilitating disclosure, fair practice and accountability norms in the real estate sector, while also providing adjudication machinery for speedy resolutions of issues. Before being sent for vetting to the Ministry of Law and Justice, the Ministry for Housing and Urban Poverty Alleviation has suggested several amendments in the Bill.

Key features of the Bill

- mandatory establishment of the "Real Estate Regulatory Authority" in every state to oversee and regulate the real estate sector
- the proposed Regulatory Authority will not only be engaged in adjudicating disputes between real estate developers and consumers, but would also be responsible for issuing registration certificates for projects that have a size of 43,052 square feet or more
- real estate developers need to mandatorily register with the proposed Regulatory Authority before beginning the construction work on plots measuring 4,000 square metres or more
- it is compulsory for promoters to adhere to the approved plans and project specifications
- developers need to mandatorily deposit 70% of the amount realised for the real estate project from buyers in a separate account maintained in a scheduled bank, within 15 days of the realisation of the project
- developers need to utilise the deposited amount only for the purpose of developing the property

Regulatory environment: the big picture

- no advance can be received without entering into an agreement with the customer. Sales opportunity through pre-sales/soft launch may be curtailed
- registration can be extended only up to two years beyond the original period for development granted by the local licencing authority
- it is mandatory for the developer to have web-presence on the authority's website
- the Authority has the power to take over the development work, etc., in case of lapse/cancellation of the registration
- imprisonment of up to three years, or a penalty of up to 10% of the cost of project in case the builder is found to be selling projects without registration
- besides, the draft Bill also includes a provision for imprisonment of up to three years, or a penalty of up to 10% of the cost of project, for builders selling projects without registration
- the amended Real Estate (Regulation and Development) Bill 2012 does not mandate developers to earmark certain portions of project townships for lower-income groups
- among the amendments suggested by the Ministry for Housing and Urban Poverty Alleviation in the draft Real Estate (Regulation & Development) Bill, 2011, one of the most significant is the one making it compulsory for developers to reserve a minimum of 20% of developed land or 20% of Floor Space Index in all land development/housing projects for lower-income groups and economically weaker sections. However, this amendment has not yet been incorporated in the Bill
- the Bill also mandated the developers to disclose the project details including timeline, cost, approved layout plan, and sale agreement to the regulator before selling the property
- further, the government has also added a chapter on real estate agents in the Bill with a view to impose stringent penalties on unorganised property agents and brokers who dupe buyers or operate without a valid registration. Property brokers in India, unlike most other countries such as Australia and Japan, do not need registration for dealing in the real estate sector

Regulatory environment: the big picture

Current status

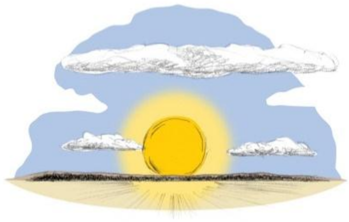
The Draft Real Estate (Regulation & Development) Bill has been prepared by the Ministry for Housing and Urban Poverty Alleviation in consultation with all concerned stakeholders including State Governments/Union Territory Administrations, Central Government Ministries, Real Estate Developers' Associations, Consumers' Welfare Associations and the general public.

The amended Bill has been sent for vetting to the Ministry of Law and Justice by the Ministry for Housing and Urban Poverty Alleviation. During January 2012, the Ministry of Housing and Urban Poverty Alleviation invited comments on the draft Real Estate Regulation Bill. Following several developments during the year, the Bill has been modified with a view to empower the state governments with freedom over its regulation and implementation.

"Real estate sector has witnessed several vicissitudes, countless vagaries, excessive bureaucratic hurdles and is replete with antediluvian and draconian rules.

However the desired renaissance in the sector has now begun through growth in GDP and reforms in administration, banking, taxation, land, employment generation through skill set training and by doubling the production of more than 250 different industries that are directly or indirectly attached to the sector."

Lalit Kumar Jain
President, Confederation of Real Estate Developers Associations of India (CREDAI)



Regulatory environment: the big picture

Maharashtra Housing (Regulation and Development) Bill, 2012

Maharashtra Housing (Regulation and Development) Bill, 2012 replaces the existing Maharashtra Ownership of Flats (Regulation of the promotion of Construction, Sale, Management and Transfer) Act, 1963. The proposed Act seeks to establish transparency in the real estate sector by setting up of a Housing Regulatory Authority (HRA) and Housing Appellate Tribunal (HAT), as well as by ensuring complete disclosure of the project and providing a redressal mechanism for consumers.

With the exception of its applicability to government bodies such as the Maharashtra Housing and Area Development Authority (MHADA), the Bill holds all the real estate transactions undertaken in the state within its ambit.

Key features

- set up by the State Government, the HRA will be empowered with judicial and administrative authority and will be entrusted with the responsibility to ensure promoters' compliance with the provisions of the Bill
- it is mandatory for every developer to register project with the HRA and to display the project on the authority's website
- the promoter is required to furnish all associated details with respect to the development of the project including details on land titles, building-wise time schedule of completion, layout plan, carpet area, date of awarding the final possession to the buyers, among many others. It is mandatory for the promoter to register even the ongoing projects with the HRA, for which occupation certificate has not yet been granted
- in case of violations, the authority can cancel the registration for a particular project
- the Bill fixes the ceiling on the maximum advance that can be received by the promoter prior to entering into a written agreement for selling the property at 20% of the sale price

Regulatory environment: the big picture

- the promoter is required to register every project with the HRA except the ones:
  - where the total number of flats proposed to be developed is not less than five
  - where the total area of land proposed to be developed is within 250 square metres
  - where the development work on the project involves renovation, repairs, reconstruction, redevelopment, or any other form of development not encompassing fresh or new allotment or marketing of flats
- promoters who fail to award possession to the buyers within the specified timeframe, or any further date agreed by the parties, or a period of three months thereafter, will be liable to refund the amounts already received with interest rates as prescribed, in case the buyer asks for a refund
- besides, the promoter will be liable to an additional penalty as determined by the regulatory authority for failing to complete construction of the project and obtain occupation certificate within the date specified as per the agreement

Current status

During the first quarter of 2012, the Maharashtra Legislative Assembly approved several provisions of the Maharashtra Housing Bill, 2012 including the setting up of the HAT and the HRA. The Act, also known as the Maharashtra Housing (Regulation and Promotion of Construction, Sale, Management and Transfer) Act, 2011, repeals and replaces the Maharashtra Ownership Flats (Regulation of the Promotion of Construction, Sale, Management and Transfer) Act, 1963.

In July 2012, the Maharashtra Housing (Regulation and Development) Act, 2012 was passed by the State's Legislative Council. The Bill is currently awaiting President's approval.

Regulatory environment: the big picture

ICAI revises Guidance Note on recognition of revenue by real estate developers

The real estate sector in India has been evolving consistently over the past few years. This transition from being a highly unorganised business to an organised sector underlines the need to review varied accounting practices being followed by the real estate companies. The introduction of the "Guidance Note on Accounting for Real Estate Transactions" by the Institute of Chartered Accountants of India (ICAI) is a step forward in addressing subjectivity and ambiguity in a number of areas, and is all likely to bring uniformity in accounting practices.

The Note, which supersedes the existing Guidance Note issued in 2006, will also ensure comparability of financial statements. The objective of this Guidance Note is to recommend the accounting treatment by enterprises dealing in 'real estate' as sellers or developers.

Key features

The scope of the Guidance Note has been significantly enlarged to capture all models/ structure of transactions including sale of development rights, joint development arrangements and transactions involving exchange of land with developed property.

Definition of project: As per para 2.1, a project is defined as "a group of units/plots/saleable spaces which are linked with a common set of amenities in such manner that unless the common amenities are made available and functional, these units/ plots/ saleable spaces cannot be put to their intended effective use". A larger venture can be split into small projects if the basic conditions as set out.

Regulatory environment: the big picture

The pre-conditions to be satisfied for Revenue Recognition are as follows:

- all critical approvals necessary for commencement of the project have been obtained
- expenditure incurred on construction and development is higher than 25% of the construction cost (excluding land cost)
- at least 25% of the saleable project area is secured by eligible contracts or agreements
- at least 10% of the total amount collectible in respect of an Agreement to Sell (ATS) has been so collected at reporting date

Revenue should be recognised for "legally enforceable contracts" only when there are no outstanding defaults of the payment terms in such contracts.

Way forward

Transition: long term projects where even a small portion of revenue has been recognised before 01 April 2012 will continue to be accounted for on the basis of the existing Guidance Note. For the initial years, the companies may have to keep two separate revenue recognition computations – for projects pre and post the implementation of the revised Guidance Note.

Project: Identification of common set of amenities within a project would be crucial for evaluating the project definition. Resultantly any reassessment of project definitions may lead to significant changes in the revenues/ profit calculations.

Payment defaults: It is not clear if post balance sheet date defaults or payments are to be considered. A complete track of the defaults made by the customers need to be maintained on a real time basis. Recognised revenues may result in subsequent reversal adjustments as a result of delayed cash inflows.

Regulatory environment: the big picture

FDI in organised retail sector

With a noticeable slowdown in India's GDP growth, the government recently introduced the much-needed economic reforms including notification for permitting Foreign Direct Investment (FDI) in Multi Brand Retail Trading (MBRT). The notification permits multinational retailers to invest up to 51% FDI to open retail outlets in 10 States and Union Territories, which have, till date, accepted the decision to implement the reform measure.

The states and Union Territories that have agreed to open FDI in the multi-brand retail include Assam, Delhi, Haryana, Jammu & Kashmir, Andhra Pradesh, Maharashtra, Rajasthan, Uttarakhand, Daman & Diu, Manipur, and Dadra and Nagar Haveli. The notification mandates that in order to set-up retail outlets, multinational retailers need to invest US$100 million, of which a minimum of US$50 million needs to be spent, within the first three year of starting the operations, for developing back-end infrastructure.

Further, retail outlets would only be established in cities having a population exceeding 10 lakh. The notification also permits a non-resident entity, whether owner of the brand or otherwise, can undertake single brand product retail trading in the country.

While the notification of FDI in multi-brand retail, on the one hand, is expected to bring in much-needed investments and white collar jobs, it could, also, on the other hand, impact the livelihood of millions of people working in the unorganised retail sector. The latter is one of the chief reasons for the measure to attract immense furore and opposition. Further, in January 2012, the government also increased the FDI cap on single-brand retail to 100% from 51%.

Regulatory environment: the big picture

Key features

- the notification does not allow FDI in multi-brand retail for online trading, as well as in chit funds, manufacturing of cigars and cigarettes, lottery business, and transport (other than Mass Rapid Transport Systems)
- the notification mandates the foreign retailers to procure a minimum of 30% of the value of the manufactured and processed products from 'small industries' which have a total investment in plant and machinery not exceeding US$1 million
- in single-brand retail, the government mandates global firms to source at least 30% of the value of the manufactured and processed products from India, preferably from MSMEs, village and cottage industries, artisans and craftsmen, in all sectors

The single brand retail space of the country received a major boost with the Foreign Investment Promotion Board (FIPB) clearing the application of Swedish furniture maker IKEA to establish a presence in India. The Swedish brand proposes to set up 25 single brand retail stores in India by bringing in Rs 10,500 crore of FDI. In order to enter the single brand space of India, IKEA plans to have a 100% subsidiary of group Ingka Holding Overseas B.V. After being cleared by the FIPB, the proposal will now go to the Cabinet Committee on Economic Affairs (CCEA) for its review and approval.

Besides, FIPB has also cleared three more single brand FDI proposals including those of Brooks Brothers, a 51% joint venture of American luxury clothing retailer, British footwear retailer Pavers England application to open fully owned stores with investment worth Rs 98.26 crore, and Italian jewellery maker Damiani's plan to form a venture with Mehta's Private Limited.

Regulatory environment: the big picture

Bengal Land Reforms (Amendment) Bill

The Bengal Land Reforms (Amendment) Bill proposes relaxation of urban land ceiling laws for companies planning to set industry in West Bengal. Further, the Bill also empowers the state government to acquire the allotted land back in case it lies unutilised for three years or more. The Bill was passed by the State Assembly in April 2012.

Key changes in the Bill

- the amended Act discourages anyone to make changes in a plot, convert or alter its area, character or mode of use
- private promoters who lease excess land from government companies are exempted from seeking clearance for holding the land or further leasing it out to others
- as per the amendment made to Section 14Y of the Act, by getting prior written permission from a ministerial committee headed by the chief minister, entrepreneurs or persons interested in setting up industrial hubs can hold land above the land ceiling limit i.e. more than 24 acres of land

Land Acquisition and Rehabilitation & Resettlement Bill

Draft Land Acquisition and Rehabilitation and Resettlement Bill (LARR) was introduced by the Government in order to facilitate land acquisition along with proper compensation mechanism.

Development along with urbanisation demands for land acquisition at one point or the other. Considering the scarcity of land and growing pressure on the existing infrastructure, efforts have been made to try other initiatives such as increasing the FSI or increasing the density in the given areas to cater to the growing population, however additional land shall still be required as many cities have reached the threshold of their carrying capacities.

To cater to such needs either private parties buy land themselves or government helps in land acquisition particularly for public purposes, however it has never been a smooth process and project affected people have more or less been neglected or under compensated. This has given rise to agitation and in worst situations, has resulted in stalled projects. With regards to public welfare and development needs, land acquisition has to be

Regulatory environment: the big picture

a fair mechanism, which ensures that there is no loss of livelihood of the affected people.

The draft Bill, which seeks to overhaul the Land Acquisition Act, 1894, ensures adequate compensation to land owners, while providing rehabilitation of those displaced by putting in place an effective transparent, legal framework.

The draft Bill was introduced with a view to establish an institutional mechanism to balance the need for industrialisation and infrastructure development with the concern to address rehabilitation and resettlement of farmers and those whose livelihood is dependent on the land being acquired.

"The tremendous level of movement on the regulatory front is indicative of sheer growth and potential in the real estate sector in India. This kind of momentum was earlier seen in the financial services industry a few decades ago and introduction of consumer-friendly regulations at that time actually helped in developing a less volatile-more deep market. History may repeat itself with real estate sector, where most transactions are seen as dubious and where buyers invariably suspect disappointing surprises later on. In this context, year 2013 has all the potential to bring new hopes and confidence in the markets and take real estate businesses to the next frontier of growth."

David Jones

Regulatory environment: the big picture

The amended Bill has been renamed as the "Right to Fair Compensation, Resettlement, Rehabilitation and Transparency in Land Acquisition Bill". The Rural Development Ministry has accepted the industry's suggestion to not apply the proposed legislation retrospectively, for the ongoing projects. Instead of requiring the consent of 80% of the project-affected families, the Bill proposes to obtain the consent of 80% of the landholders. Further, the Rural Development Ministry has also rejected the Standing Committee's recommendation of non-involvement of the government in acquiring land for private companies or public-private partnership projects, even in cases where "public purpose" is involved.

The government has also amended the preamble of the Bill to specify the bodies included within the local self-government, and detail the role of these institutions. The expert group for the evaluation of the social impact assessment report comprises of the panchayat, gram sabha, municipality/Municipal Corporation. Further, the Social Impact Assessment (SIA) team will also comprise of a representative of the institutions of panchayat raj.

The Bill intends to make the proceedings of the team more transparent, and ensure the distribution of its report in the local language.

Key features

- the Bill extends the ambit of the term 'affected family' to include both the land losers as well as livelihood losers
- it ensures rehabilitation and resettlement benefits for specified private purchase of land equal to or more than 100 acres in rural areas and equal to or more than 50 acres in urban areas
- the Bill mandates a set process for land acquisition comprising of a SIA survey, preliminary notification stating the intent for acquisition, a declaration of acquisition, and compensation to be given by a certain time
- the SIA study has been specifically constituted for projects requiring the government to acquire land for a public purpose
- the Bill limits the acquisition of multi-crop land with the view to ensure food security
- the Bill proposes the establishment of a Committee under the Chief Secretary for examining proposals of land acquisition for tracts of land equal to or more than 100 acres

Regulatory environment: the big picture

- it seeks to establish an institutional mechanism comprising of Commissioner for Rehabilitation and Resettlement, the Land Acquisition, Rehabilitation & Resettlement Authority at State level, Administrator for Rehabilitation and Resettlement, for ensuring rehabilitation and resettlement, Rehabilitation and Resettlement Committee at project level, and National Monitoring Committee at Central level
- the Bill provides for enhanced compensation to the land owners and rehabilitation and resettlement entitlements along with specified timelines for payment of compensation, along with the provision of rehabilitation and resettlement entitlements
- the revised Bill permits land acquisition for production of public goods and services by private players and certain Public Private Partnership (PPP) projects provided more than four-fifths of land owners give their consent. The Standing Committee has suggested amendments to the provision that allows the government a limited role in acquiring land for private companies and PPP projects
- it mandates the doling out of 25% shares as part of compensation in cases where the Requiring Body offers its shares to the owners of land whose land has been acquired
- it mandates compensation for the owners of the acquired land at two times the market value in urban areas and four times in case of rural areas
- it limits the urgency clause for land acquisition for purposes including Defence of India, National Security, or any other emergency arising from natural calamities
- the revised Bill has incorporated the Standing Committee's recommendation to let the states adopt a threshold for compulsory provision of relief and rehabilitation by private players

Regulatory environment: the big picture

- further, the new draft Bill has revised the provision to limit the threshold of 100 acres in rural areas and 50 acres in urban areas to permit the states to decide the percentage of multi-cropped land they intend to make available for land acquisition. To address the concern of meeting the requirements of food security, the Standing Committee has recommended prevention of all agricultural land and not just that of land in multi-cropped areas
- the Standing Committee has recommended amendments to prohibit land acquisition in scheduled areas, having population exceeding 83 million people, including tribal land spread across states
- the revised Bill also proposes to include the SEZ Act, the Cantonments Act and the Works of Defence Act within its ambit
- the government has amended the provision for consent requirement from landowners/affected people in cases of government acquiring land for public-private partnership (PPP) projects with public purpose and purely private projects
- consent from 80% of these people will be required for private companies' acquisition of land for their use

Key amendments

- the revised Bill states that in case of PPP projects, consent from only 70% of landowners/affected people will be mandatory
- further, consent from 80% of the landowners/affected people will be mandatory for private projects
- infrastructure projects fully owned and executed by the government do not require any mandatory consent
- in the case of projects where land acquisition process has been underway for five years or more, the entire process will be nullified and brought under the new norms for a fresh start
- by including National Investment Manufacturing Zones in 'public purpose', the Bill excepts the need to seek approval of landowners during land acquisition under National Manufacturing Policy
- the time limit for the process of securing consent and SIA has been made 6 months

Regulatory environment: the big picture

- in its draft, the amended Bill proposes that the government will play a significant role land acquisition where PPP projects or private companies are involved. However, in order to qualify for this clause, it is mandatory for the projects to be involved in the production of public goods or the provision of public services for physical infrastructure, social infrastructure and human development projects including those involving the production of intermediate goods and services for these purposes
- while the Bill incorporates the parliamentary panel's recommendation to determine the minimum compensation, it provide the states with the freedom to set up land pricing commissions to top up the amount and manage the process
- an additional 75% compensation will be provided, in case the "urgency" clause is invoked, as may be the case with acquisition for defence purposes
- to ensure that the acquisition price does not form the basis for compensation and calculation in future acquisitions resulting in speculative price spiral, the Bill ensures that the compensation is not included as the basis for circle rate for subsequent acquisitions
- the compensation package will apply even in cases where payments have been announced but possession of the land has not been taken or compensation has not been paid to the owner
- the compensation will be considered as unpaid if the amount has not been credited in the bank account of the landowner
- compensation will be kept at two times the market rate, including solatium, for urban areas
- on the other hand, proposed compensation ranges between two and four times the market rate, including solatium, for rural areas
- a sliding scale reflecting the distance of the project from urban areas will be used for determining the exact rate

Regulatory environment: the big picture

- compensation will be two times the market rate for families in rural areas closest to urban areas
- for families in rural areas farthest from an urban centre, compensation will be four times the market rate
- the states will have the freedom to assign the precise slabs of the sliding scale
- in consideration with the Standing Committee's recommendation, the Bill proposes to provide the states with the freedom to set threshold for the use of multi-crop irrigated land and restrict diversion of net sown area
- in line with the suggestion by the roads ministry, the Bill provides a one-off payment for rehabilitation and resettlement by the acquirer, who will put the entire amount in an escrow
- a state agency will be made liable to administer the ongoing commitments such as annuities and benefits
- the entitlements will be linked to the Consumer Price Index (CPI) and revised every three years
- the amended Bill fails to specify any threshold on which rehabilitation and resettlement entitlements become applicable, in cases of private purchase of land
- this threshold can be fixed by the state governments after taking into account the availability of land and density of population
- the district collector has been delegated with the authority to acquire land for smaller public projects, such as schools or hospitals
- with a view to safeguard the interests of the landholders, the Bill offers an enhanced role of local self-government institutions
- 20% land is to be reserved for urbanisation purposes for those whose land is being acquired
- the proposed law is to be made applicable for all projects where the process of acquisition is not complete
- the legislation will also cover all acquisitions where land is yet to be awarded and/or compensation has not been paid on the day the Bill becomes effective
- the date the new law comes into effect, all incomplete acquisitions under the Land Acquisition Act 1894 will lapse, which will force developers to restart the process of acquisition in accordance with the provisions of the new law

Regulatory environment: the big picture

- keeping in mind the concerns raised by the Roads Ministry, the Bill proposes to exempt any state law under which state governments acquire land to build state highways
- if the acquired land or any portion of it is resold, 20% of the resale price will have to be given to the land owner from whom it had been acquired, or their legal heirs
- the State Government will have the freedom to set up land pricing commissions to determine the cost of the land, which will also enable them to increase the compensation amount by taking into account the rise in price index
- for calculating the amount to be awarded, several factors including the loss sustained by taking standing crops or severing land from other land, injury to people or property, market value of land change of residence will be taken into account
- the Bill proposes to safeguard the interests of the land owners and their dependents by permitting authorities to take possession of the land once the monetary component of the compensation package has been paid
- the proposed law allows surveys to be conducted even in the absence of the owners if it can be established that the authorities gave the owner every possible opportunity to be present

Current status

Several provisions in the original Land Acquisition, Rehabilitation and Resettlement Bill, 2011 were amended following its referral to a Parliamentary Standing Committee in 2011 which submitted its report in May 2012. Thereafter, the draft Bill was amended by the Rural Development Ministry, which also incorporated many of its recommendations in the new draft. In order to make the proposed legislation more attractive for industry, the Rural Development Ministry planned to remove the clause implementing the legislation with retrospective effect, the requirements of consent from landowners, and tightening the definition of market value.

The revised Bill that was set to be tabled in the Monsoon session of the Parliament ran into opposition in the Cabinet. Thereafter, it was referred to a Group of Ministers (GoM) for its review and consultation. The reviewed Bill was tabled in the Winter Session of the Parliament wherein it was passed by the Union Cabinet.

Regulatory environment: the big picture

Direct taxes

Domestic transfer pricing regulations

The Finance Bill 2012 presented by Hon'ble Mr. Pranab Mukherjee, the then Finance Minister, packed quite a few far reaching impact amendments. Though not all the proposed radical amendments could find place in the eventual enactment, invoked transfer pricing regulation on specified domestic transactions did. Transfer pricing regulation in India were applicable on international transactions for some time now, however, from financial year starting on 1 April 2012, the Finance Act 2012 has enlarged the scope of the regulations by bringing in its gamut specified domestic transactions as well.

A new section 92BA has been inserted in Direct tax statute (Income-tax Act, 1961) in this regard which specifically defines the domestic transactions which would be governed by transfer pricing regulations.

As per the statute a "specified domestic transaction" in case of a taxpayer would cover the following domestic transactions:

- transactions undertaken between specified persons in relation to expenses
- transactions involving both income as well as expense side with or within tax holiday units

To summarise the domestic transfer pricing would now entail transfer pricing planning along with statutory compliance. The assessee would be now required to comply with the following additional requirements:

- determine an arm's length transfer pricing policy applying the prescribed transfer pricing methods
- maintenance of mandatory transfer pricing documentation as specified which need not to be filed till the Assessing Officer requisitions the same at the assessment stage
- obtaining and furnishing a report from Chartered Accountant in Form 3CEB with the Assessing Officer

Regulatory environment: the big picture

- the certificate and annual tax return for these tax payers has to be filed with the Assessing Officer on or before 30th November [30 November 2013 for FY 2012-13]

The invocation of the domestic transfer pricing provisions would have a significant impact on the real estate sector. For instance following transactions may have impact because of the domestic transfer pricing regulations:

- purchase/payment of development rights/charges/Land cost incurred: Typically a real estate group work in a system where it the will have many group companies due to regulations and commercial reasons. Typically a land owning company (LOC) which may enter into a transaction where development rights associated with the land is transferred to group entity where the actual development happens. As these entities are group entities with common ownership and control, the aforesaid will be covered within the ambit of domestic transfer pricing
- **interest expense:** Similarly in real estate group the main entity of the group is normally a company which is preferred entity for raising funds for the whole group. This main entity then advances these funds to other group entities for business operation of the group. With the advent of domestic transfer pricing regulations, the amount advanced as loan should be subject to interest levy based on the Fair Market Value from the financial year 2012-13

Some other transactions that could be covered under the ambit of domestic transfer pricing regulations are as follows:

- reimbursements
- service, maintenance and administration charges
- construction cost and purchase of material
- corporate guarantee charges
- payment of royalty
- shared services cost/ management cross charges
- payments to directors or their relatives
- ESOP/ ESOS cost borne for directors or their relatives ESOP/ ESOS cost reimbursed

Regulatory environment: the big picture

Other amendments: Due to the multi-level set up which a real estate group normally follows, certain amendments brought in Finance Act 2012 will have a positive impact on real estate sector. As per the amendment, the cascading effect of the Dividend Distribution Tax (DDT) has been removed in a multi-layered structure. The credit of DDT was available only in a two tier structure so far. Though the benefit still available only if dividend received from a subsidiary. If you receive dividend from a company in which you hold as high as 49% shares, yet there would not be any reprieve from the cascading DDT.

Amid stiff protests from all quarters had led to softening of aggressive tax position that was taken by the Budget as was initially proposed. Consequently, the date of implementation of General Anti Avoidance Rules is still not certain and how will it affect the Indian taxpayer is still not completely comprehensible currently. The exposure draft of tax accounting standards intends to harmonize, give certainty to issues and reduction of litigation; however, it lays new grounds and stakeholders would have to evolve to the changing regime.

Indirect taxes

Service tax scenario

Prior to introduction of the 'negative list' concept in 2012, the Real Estate and construction industry was grappling with multiple taxable service categories in the form of 'Commercial or Industrial construction'; Construction of Complex' and 'Works Contract Services' among others. On introducing the Negative List approach it was clear that only services specified in the 'Negative List' would remain outside the tax purview. All other conceivable services would be taxable, subject to specific exemptions provided.

S.	Type of contract	Value for Service tax purposes
1	New construction contracts including alterations etc.	40%
2	New construction contracts including additions, alterations etc. where total contract value is inclusive of land value	25%
3	Other ancillary contracts	60%

Regulatory environment: the big picture

In the present scenario, the 'declared' services that are taxable include (i) renting of immoveable property except residential accommodations used for residential purposes; (ii) construction of complex, building, civil structures; etc. that are intended for sale to a buyer and the consideration is received prior to issuance of a completion-certificate [subject to exemptions provided]; and (iii) service portion in the execution of a Works contract.

Services related to immoveable properties also find specific mention in the newly introduced Place of Provision of Services Rules; which provide that the location of the immoveable property would determine the taxability or otherwise of such services provided.

Essentially, real estate developers today have multiple options to discharge their Service tax liability. The definition of 'Works contract' covers construction contracts and also extends to similar activities in relation to any building or structure on land. The construction contract can now be treated akin to a Works contract and the developers have the option to reduce the value of materials transferred form the total value of the (works) contract. The following abatements are prescribed in cases where the material and other prescribed costs are not specifically ascertainable:

Coupled with the increase in basic rate of Service tax from 10% to 12%, the composition rate for payment of service tax on works contract services increased from 4% to 4.80%.

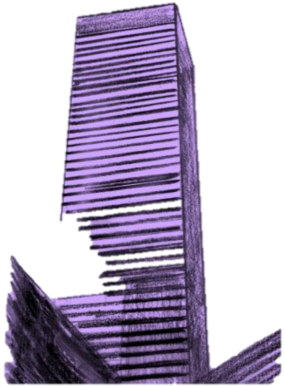
Regulatory environment: the big picture

VAT update

With the amendment in the definition of 'Sale' under the Maharashtra Value Added Tax Act, 2002 ('MVAT'), real estate developers were made liable to deposit tax on sale of flats which are under construction. The Maharashtra Chamber of Housing Industry challenged the amendment on constitutional grounds and filed a writ petition in the Bombay High Court. An interim stay was initially granted but the same was vacated earlier this year and the levy was enforced from 20 June 2006.

Given the challenges surrounding maintenance of books and accounts and keeping proper account of materials procured for construction and (input credit) VAT paid thereon, multiple modes for computing VAT liability were announced in addition to a composition scheme for discharging the liability. Worthy of note is the fact that the Composition scheme was further simplified with effect from 1 April 2010 and a flat rate of 1% of the contract value was chargeable.

The Maharashtra Government has also issued Trade Circular No. 14T of 2012 dated 6 August 2012 providing administrative relief to the real estate developers until 30 October 2012 for payment of tax. The circular also provided for leniency from the regulations in the context of late registration and filing of returns for the prior period.



Investment scenario

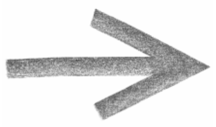
Reforms to infuse confidence and drive demand in the market

Investment scenario: the ins and outs

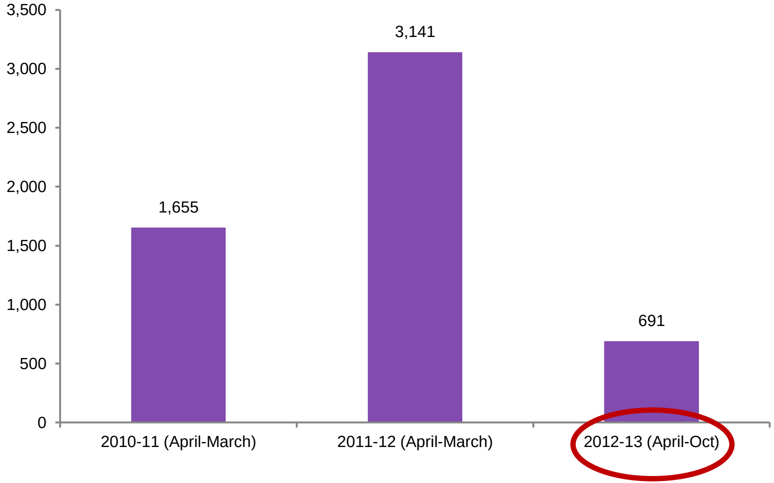
Riding high on the back of rapid urbanisation, positive demographics and rising income levels, the Indian real estate sector has attracted significant investment over the past few years.

The sector that once grew at 7.8% in 2009-10 witnessed a deceleration during 2012-13 to 6.5% (till June 2012) owing largely to the sluggish growth of the Indian economy, rising input costs and an overall slowdown in the global economy.

As per latest estimates, the housing sector contributes about 5% to the overall GDP growth of the country. The Economic Survey 2011-12 shows that the housing sector ranks fourth in terms of the multiplier effect on the economy.



Year-wise FDI Inflows (in US$ million)



Source: Department of Industrial Policy and Promotion, Government of India

Investment scenario: the ins and outs

As per the industry reports, the total economic value of the real estate activity in the country ranges between US$40-45 billion, which contributes 5-6% to the GDP growth. Of its total size, residential segment, with 90-95% size, forms the major chunk of the market, followed by the commercial segment (4-5%) and organised retail segment (1%).

The demographic advantage of the country and the rising thrust on infrastructure is triggering a plethora of events, significant among which is the rising FDI in the sector. It is estimated that the FDI in the sector will grow from the current US$4 billion to US$25 billion within a span of 10 years. A report released by the United Nations (UN) states that India ranks third after China and the US in terms of the most favoured investment destination for global companies. As per the report, the FDI inflow in the sector is expected to increase by 20% during 2012-13.

Some of the recent policy initiatives which are expected to serve as a trigger to boost the investment in the sector include:

- the Union Budget 2012-13 proposed 1% Tax Deduction at Source (TDS) on transfer of immovable property if the value of the sale is beyond Rs 50 lakh in urban areas and Rs 20 lakh in other regions
- foreign citizens of Indian origin have been granted permission by the Reserve Bank of India (RBI) to purchase property in India for residential or commercial purposes
- FDI up to 100% is allowed under the automatic route in townships, built-up infrastructure and construction development projects subject to certain conditions
- the government has allowed 51% FDI in multi-brand retail subject to conditions

Besides, RBI has also proposed to increase the minimum capitalisation requirement for any company with over 75% foreign holding by treating it as a wholly owned subsidiary of the foreign company.

Investment scenario: the ins and outs

In an attempt to provide operational clarity to investors with regards to FDI norms in the real estate and construction sector, the RBI has suggested to increase the minimum capitalisation requirement for an Indian company with FDI of 75-100% operating in the construction development sector to US$10 million from the currently permissible US$5 million. Also, the RBI has proposed a one year lock-in for the FDI instruments that have in-built options.

The cumulative inflows for April-May 2012 for housing and real estate stood at US$132 million. According to the latest data available with the Department of Industrial Policy and Promotion (DIPP), construction development comprising of townships, housing and built-up infrastructure attracted 12% of the cumulative FDI inflows during June 2012. Maximum FDI across sectors was contributed by Mauritius (38%) during the month, followed by Singapore (10%), UK (9%), Japan (7%), USA (6%), Netherlands (4%), Cyprus (4%), Germany (3%) and France (1%). Between April and September 2012, the construction development segment comprising of townships, housing and built-up infrastructure attracted FDI worth US$644 million. The total FDI pumped into the construction development sector from April 2000 to September 2012 stood at US$21,383.2 million.

Further, the country received FDI worth US$6.18 billion between April and July 2012, as per the RBI. The figures show a marked slump from the cumulative FDI received by the country during April-July 2011, which stood at US$14.6 billion. According to RBI, FDI inflows to India moderated to US$10.7 billion during April-August 2012 compared with US$19.6 billion during April-August 2011. Total FDI inflow in real estate activities in India till August 2012 was recorded at US$340 million, while the cumulative FDI inflow was US$23,473 million.

Investment scenario: the ins and outs

As per industry reports PE investments in the real estate sector doubled to Rs 2,100 crore between January and March 2012 from Rs 1,060 crore a year ago. During the quarter, the PE investments in the sector rose by 26% from Rs 1,670 crore during the previous quarter. Between Q4 2011 and Q1 2012, the average deal size in development projects increased to Rs 190 crore from Rs 80 crore.

Both independent foreign investors and institutions were responsible for a total of five deals worth over Rs 1,500 crore in the sector during the first quarter of 2012. Foreign funds made almost 80% of the total investments in the sector as compared to 50% in 2011. Prominent investments which concluded during the January-March 2012 quarter include Morgan Stanley's Rs 464.6 crore investment in Sheth Developers' group housing project, Rs 200 crore investment by IL&FS Investment Managers' in Indiabulls Infraestate, and Kotak Private Equity's Rs 310 crore investment in Sunteck Realty.

Residential sector witnessed the highest value of deal (Rs 800 crore) during the January-March 2012 quarter, followed by office and mix-use developments. As per the industry body the Associated Chambers of Commerce and Industry of India (ASSOCHAM), real estate sector contributed 6% to the overall M&A activity in the country between January 2012 and March 2012. Between January 2012 and March 2012, a total of three M&A deals took place in the real estate sector. While, on the one hand, the share of the residential sector in the cumulative volume of PE investments increased by 9% during Q1 of 2012 as compared to Q1 of 2011, the office segment recorded a decline in investment volume by 12% during the same period, owing largely to lower average deal size.

As per the research firm Venture Intelligence, Private Equity (PE) investors were seen becoming extremely cautious about their investments in real estate sector during 2012. This is evident from the fact that during the June 2012 quarter, the sector saw seven investments across six deals amounting to US$162 million, as compared to an investment of US$553 million across 14 transactions during the same period in the June 2011 quarter. On the other hand, the January-March 2012 quarter witnessed a total of 17 PE investment deals.

Investment scenario: the ins and outs

The largest deal during the June 2012 quarter was Morgan Stanley Real Estate's Rs 500 crore investment in Supertech's township project in Noida. Other significant deals during this period include US-based Walton Street Capital's Rs 100 crore investment in Supertech, and Government of Singapore Investment Corporation (GIC)'s investment to the tune of Rs 100 crore to facilitate Brigade Group for purchasing a tract of land in Bangalore's Whitefield area for the development of a premium residential project.

The decrease in PE investment during the first half of 2012 can largely be attributed to reduction in new or expansion projects by developers, slowdown in sale of residential and commercial units, and depreciation in the rupee. Further, the investors were seen becoming extremely cautious with respect to their investment decision, while shifting their focus upon projects nearing completion. As per estimates, real estate companies raised about US$424 million PE funds between January and June 2012, a figure which is 33.54% lower than the corresponding period in 2011.

During July 2012, the real estate sector attracted US$291 million worth of investments across four deals. The report also states that till Q3 2012, the total number of PE transactions recorded by the sector stood at 23, which is slightly lesser than the volume recorded during the same period in 2011. Cumulatively, the PE investment in the sector declined by about 20.2% to US$831 million from US$1,041 million during the first five months of 2012 fiscal from the same period in 2011. Of the estimated quantum of institutional transactions during Q3 of 2012 in the real estate sector, a majority occurred in the commercial segment. The commercial segment attracted investment worth Rs 54,700 crore, followed by residential sector at Rs 27,500 crore.

Between the first three quarters of 2012, the PE investments in the sector slumped by 15% in value terms on the back of uncertain investment scenario in the country, growing difficulty to raise funds, and inability of existing funds to show returns to investors. Owing to rising currency risks and taxation issues in the country, investors have diverted their focus on economies such as the US that are still providing significant returns.

Investment scenario: the ins and outs

Coupled with concerns on valuation and continued focus on exits for some vintage funds, the total number of PE transactions witnessed a substantial downslide during the year. Delays across the projects further impacted the appetite of PE funds for development risks.

As per industry estimates, the sector witnessed investments to the tune of Rs 3,500 crore across residential and commercial property segments, as against Rs 4,110 crore in the same period in 2011. Between January and September 2012, domestic and foreign PE funds concluded 23 deals in the sector, which is marginally lower when compared to the same period in 2011.

Of Rs 3,500 crore worth of PE investments witnessed by the sector, maximum investment, to the tune of Rs 2,100 crore, was recorded during the first quarter of the year. On the other hand, the second and third quarters of the year recorded Rs 1,380 crore worth of PE investment. During the period, the share of the residential segment in the cumulative PE investments increased by 9%.

Basis the data available with Venture Intelligence, the sector witnessed 43 PE investments in 2012, of which 35 transactions had an announced value of US$1.14 billion. In essence, the activity level of the PE investments in the sector was almost 38% lower compared to the 69 investments, and US$2.7 billion investment across 54 announced deals, witnessed in 2011. In terms of the volume, residential projects accounted for 65% of the investments, while commercial projects accounted for 16% of the overall investments witnessed by the sector during 2012.

While during 2011, traction was more in the residential real estate asset class, 2012 witnessed a resurgence of interest of realty funds on acquiring commercial office space. Overall, the year proved highly lacklustre for investments, with the sector facing scarcity of new capital and realty funds managers struggling to raise fresh capital.

Investment scenario: the ins and outs

Significant among the fundraising activities by the realty funds managers during 2012 include IndiaReit Advisor's Mumbai Redevelopment Fund worth Rs 430 crore, Ascendas India Trust raising US$100 million for investing in commercial assets, and India Infoline raising funds to the tune of Rs 500 crore. Besides, Red Fort Capital's offshore fundraising activity wherein it scooped US$500 million as well as Rs 1,000 crore-fund raised by ASK Property Investment Advisors to invest in the residential space through pure equity transactions are other noteworthy fundraising activities in the Indian realty space during 2012.

Also, among the significant fundraising activities in the sector during November 2012, Portman Holdings', a US-based fund manager, investment worth US $300 million in varied real estate properties in India, and Paracor Capital's real estate-focused fund with a target of US$100 million are prominent. Some of the major deals of the year were Citigroup's acquisition of a Mumbai office building for Rs 985 crore, and the acquisition of 17-acre land Lodha Developers in Mumbai from DLF for Rs 2,725 crore – the largest deal of the year.

Mumbai continued to remain the hotspot for PE investments followed by Bengaluru and NCR, which received majority of investments of the total Rs 1,380 crore invested during the first three quarters of the year. Although the share of the three cities in the total investment reduced to 78% during Q1 2012 from 84% in Q1 2011, the cities continued to witness steady interest from PE investors, along with Pune, Chennai and Hyderabad. The drastic drop in the number of PE deals during the year can largely be attributed to concerns on the recent government policy initiatives, along with an uncertain investment scenario, valuation and continued focus on exits for some vintage funds.

Across the investment scenario in the real estate sector, a shift in trend is underway, as evident from the fact that the maximum number of PE deals in the year was executed through Special Purpose Vehicles (SPV) as compared to via both entity and SPV modes during the previous year. While the leased commercial assets recorded PE investments of Rs 15 billion till Q3 2011, the quantum declined considerably to around Rs 6.1 billion during the same period in 2012. Further, there has been a marked increase in investment portfolios preferring shorter investment cycles and those opting to refrain from venturing into Tier III and other smaller cities.

Investment scenario: the ins and outs

2012: Prominent deals in Indian real estate sector

Investor	Investee	Investment	Purpose
Blackstone	Manyata Embassy Business Park	Rs 875 crore	The investment was focused towards a Special Economic Zone (SEZ) promoted by the Bangalore-based real estate developer Embassy Property Developments Limited
APG and Group of investors	Godrej Properties	Rs 770 crore	A group of investors led by Dutch pension fund manager APG and asset management firm Sparinvest Property Investors will invest funds for a residential property development platform
Government of Singapore Investment Corporation (GIC)	Godrej Properties	Rs 537 crore	The deal involved an investment in Godrej Properties office project in the Bandra Kurla Complex in Mumbai
Morgan Stanley Real Estate Investment	Supertech	Rs 500 crore	The deal involved Supertech's township project in Noida, titled Cape Town
Baring Private Equity Partners India	Bangalore-based RMZ Corp	Rs 500 crore	The investment is aimed to help RMZ group acquire 6 million square feet of office space in Bangalore
Morgan Stanley	Sheth Developers Private Limited	Rs 464 crore	The quantum of the investment is set to be used for the development of Sheth Developers' group housing project in Mumbai
Sunteck Realty	Kotak Private Equity Group	Rs 300 crore	Kotak has contributed an investment worth Rs 150 crore for the acquisition of 16 acres of land at Goregaon West in Mumbai by Sunteck Realty
Red Fort Capital	Prestige Estates	Rs 200 crore	The investment was made at the land acquisition stage for a greenfield development

Source: Grant Thornton research

Investment scenario: the ins and outs

2012: Prominent deals in Indian real estate sector (contd.)

Investor	Investee	Investment	Purpose
IL&FS Investment Managers	Indiabulls Infraestate	Rs 200 crore	The investment will be used to develop the 8.3-acre Bharat Mills at Worli in Mumbai
IL&FS PE Fund	ETT Group	Rs 200 core	The 300,000 square feet-Express Trade Tower, which is located in Noida's sector 16 A Film City area, was purchased by the PE fund IL&FS Investment Managers
Brick Eagle Capital Group	Xrbia Developers Limited	Rs 200 crore	The investment has been used to acquire 150 acres of land in Karjat, near Mumbai to develop five projects in partnership with Xrbia
Ascendas Property Fund Trustee Private Limited	Phoenix Infocity Private Limited	Rs 176.5 crore	The investment has been used to acquire two operating Buildings in Hitec City 2 SEZ in Hyderabad from Phoenix Infocity
Red Fort Capital	3C Company	Rs 150 crore	The investment will be used to develop a residential project on a 47.5-acres site in Gurgaon, Titled 'Greenopolis, the project' would comprise of 2,317 housing units and generate an expected sales value of Rs 2,300 crore
Government of Singapore Investment Corporation (GIC)	Brigade Enterprises	Rs 125 crore	The tract of land in Bangalore's prime Whitefield area, jointly purchased by Brigade Enterprises and GIC from Hindustan Unilever, will be used for developing a real estate project targeted specifically towards the high-income group
Kotak Realty Fund	Parsvnath Developers	Rs 120 crore	The investment will develop a 100-acre township project on Sohna Road in Gurgaon, and will comprise of residential as well as mixed commercial and retail units

Source: Grant Thornton research

Investment scenario: the ins and outs

The third quarter of the year witnessed one of the country's biggest commercial real estate acquisition deals till date by the US PE firm – Blackstone. The deal, which will give Blackstone 50% stake in a Bangalore builder-owned portfolio of three business parks for $200 million, will be implemented via an SPV. As a part of the deal, Blackstone purchased stake in an SPV comprising three commercial properties totalling over 10 million square feet. These include Embassy Tech Zone in Pune, and Manyata Embassy Business Park and Embassy Golf Link in Bangalore.

Another major trend evident in the real estate sector in recent times is the increasing focus of private PE players on high-end and luxury projects. Witnessing this trend, reputed real estate players are venturing into the luxury projects space across Tier I markets including Mumbai, National Capital Region (NCR) and Bengaluru. The interest in luxury projects is also being driven by the fact that the differential cost between a luxury apartment and other apartments in Tier I cities is very less. Further, although luxury projects have higher risk compared to affordable housing, their returns are much better, owing to the additional 30-35% profit margin of the developer.

Further, PE funds are also focussing on affordable housing, the locus of which is generally around Tier III cities. This trend is evident from the fact that Arthveda, a subsidiary of DHFL, recently launched an Rs 200-crore fund focussed on Tier III cities. Besides, with the dollar appreciating in value compared to the rupee, Non-resident Indians (NRIs) have also increased their investment in the sector. Also, investors from Gulf countries are also looking forward to enhancing their investment portfolio in various sectors in the country, primarily in infrastructure and real estate sector. A key driving force behind these trends is the government's decision to permit Qualified Foreign Investors (QFIs) from the Gulf nations and all EU nations to invest directly in stock markets.

Real estate sector had witnessed a flood of PE investments between 2006 and 2008 during the boom years of the sector, which are have been heading to a natural end in 2001-12. PE firms raised US$20 billion to invest in India between 2007 and 2008. A recent report by Jones Lang LaSalle states that since the last four years, the real estate sector in India has seen US$3.2 billion worth of PE exits, which accounts for about Rs 14,720 crore in value terms (at Rs 46/dollar). The report also states that in the 24 months starting from January 2012, the sector will witness PE exits worth US$3 billion.

Investment scenario: the ins and outs

The share of PE exits includes 46% residential, 22% office space and 7% mixed-use portfolio with regards to asset class. The year 2007 recorded the highest PE investments worth about US$6.76 billion, while 2006 attracted investments to the tune of US$1.29 billion. PE investment in realty stood at US$3.31 billion in 2008, which fell to US$0.88 billion in 2009, US$0.94 billion in 2010 and US$0.85 billion in 2011. The study also states that 2012-13 is the opportune time to push forward divestments owing largely due to the fact that 2007-08 witnessed the majority of investments in India. The chief reasons for the increase in exits have been distressed sales, fund-raising activities and market-driven opportunistic exit.

The report also states that US$3.2 billion of exits have been recorded over 80 transactions since 2008, of the cumulative investments of US$13 billion. Owing to global recessionary trends, the average return multiple of the exits have been recorded at about 1.24, of which, the return multiple in the residential sector was about 1.1, while that of the commercial sector was 1.2. Some of the notable transactions that yielded exceptional returns in the sector during the last four years were completed by Wachovia, ICICI Ventures, HDFC, Indiareit and Kotak Realty. Of these, the maximum transactions had been in the commercial office assets.

Due to the large deal sizes from offshore investors, exits of domestic and offshore investors, along with PE funds, stood at 52% and 48% in value terms, respectively, while the exits attributed to foreign funds accounted for an overall 74%. Besides, in terms of value, almost 69% of the exits were through promoter buybacks, reflecting lack of sufficient price discovery mechanisms in the exit process, along with the lack of secondary investors.

Limited liquidity in the market forced a large number of PE funds to defer their exits from the real estate space during 2012 as compared to 2011. According to VCCEdge, the PE fund exits in the real estate space stood at US$288 million during 2012, a sharp fall from the US$457.32 million worth of PE exits in 2011. Although the funds that invested in real estate companies or projects during 2006-07 are reaching the end of their investment horizon, delays in project completions and inability of developers to launch public share sales because of volatile markets have been driving PE funds to wait for better returns from their investments and hence, defer their exits.

Investment scenario: the ins and outs

Of the total number of exits, majority (90%) occurred at the project level, with the developer repurchasing stakes from the investor. According to industry reports, promoter buy back have accounted for almost 70% of the total PE exits in the sector since 2005. Besides developer buybacks that offer a natural exit to investors, another preferred route - secondary sales, where one investor exits by selling off its stake to another fund, usually at a much higher price, were also considered by investors as a way to exit, albeit with a lesser interest.

News round-up

A quick round-up on major developments impacting the sector

News round-up: regulatory

Union Cabinet clears Land Acquisition and Rehabilitation and Resettlement Bill, 2011

During the Winter Session of the Parliament, the Union Cabinet approved the much-delayed Land Acquisition and Rehabilitation and Resettlement Bill, 2011. With the approval of the Bill, the land prices are likely to escalate further from their present values.

Circle rates hiked in Delhi by up to 200%

The Delhi Cabinet approved a proposal hiking the minimum valuation of land and immovable property - circle rate – by up to 200% for Category A colonies with an aim to keep a check on the black money component in property transactions. The hike in circle rates for Category B colonies was 50%, while it was 25% for C, D, E, F, G and H category colonies. By hiking the circle rate, the government expects to increase its revenues from registration of properties by Rs 200 crore.

Circle rates in Noida revised by 10-25%

Following the announcement of the land rate hike by 7.5-15% by the Noida, Greater Noida and Yamuna Expressway authorities, the circle rates in Noida were hiked by 10-25%.

The revision in the circle rates will be effective in preventing buyers and sellers from paying less stamp duty by showing very low values of property deals.

Maximum height of buildings set to be fixed by the Union Territory (UT) Administration in Chandigarh

The Union Territory (UT) Administration is set to amend the bylaws drafted by the UT Urban Planning Department to fix the maximum height of the buildings erected or re-erected in the 22 villages falling in the jurisdiction of UT Administration at 10.36 metres.

Master Plan for developing area around the Yamuna Expressway passed

In a move that could provide a major boost to the urban development work in the region, the NCR Planning Board has approved the first phase of the Master Plan 2031 of the Yamuna Expressway Industrial Development Authority (YEIDA) that serves to connect Greater Noida with Agra. The approved Plan will direct the YEIDA to develop the area up to Jewar. This includes 584 square kilometres of of Gautam Budh Nagar and Bulandshahr districts in phase-I. The Plan is currently being reviewed by the Uttar Pradesh State Government.

News round-up: regulatory

House tax payment system in Gurgaon to be overhauled

The entire system of house tax payment is set to be overhauled and revamped by the Municipal Corporation of Gurgaon, in response to increasing incidence of complaints from residents that they have to travel long distances to pay tax. The Municipal Corporation of Gurgaon has partnered with few private banks including Oriental Bank of Commerce to make the payment facility available at their various branches across the city.

Revised draft of the Greater Noida Master Plan-2021 approved by the NCR Planning Board

The approval of the revised draft of the Greater Noida Masterplan-2021 will trigger the construction activity of around 200,000 apartments in various projects in the Noida Extension area of Greater Noida. The Greater Noida Authority had revised the Masterplan-2021 with several changes including earmarking 20% for housing for EWS as well as 16% of the space for green areas. In addition the revised draft also proposes the construction of a solid waste treatment plant in the area.

Haryana Government to adopt Public-Private Partnership (PPP) approach for improving both social and physical infrastructure

In its annual Plan for Haryana for 2012-13, the State Government has proposed to put in comprehensive efforts to encourage more private sector participation in infrastructure development, including the improvement in social infrastructure and basic amenities such as water, sanitation, electricity, roads, housing, etc.

Haryana Government notifies a new land pooling scheme

The new scheme provides landowners the option to avail developed land against land acquired for industrial or infrastructure development, while also empowering the landowner to opt for developed land measuring 1,200 square yards for each one acre of land proposed to be acquired on behalf of the compensation package and all other benefits admissible under the Land Acquisition, Rehabilitation and Resettlement policy of the Government.

In order to be eligible for the scheme, it is imperative for the landowner to have a minimum of half acre or more of his or their land is acquired.

News round-up: regulatory

New Industrial & Infrastructure Investment Policy 2012 approved by the UP Cabinet

The New Industrial & Infrastructure Investment Policy, 2012 succeeds the UP Industrial and Service Sector Investment Policy 2004, which lapsed in 2009. The new Policy seeks to simplify and speed up processing of investment proposals by the establishment of the 'escort officer' (facilitation personnel of industry department) and single-window systems.

As a part of the Policy, 100% stamp duty exemption has been offered to the three industrially backward regions of the state including Poorvanchal (eastern UP), Bundelkhand and Madhyachal (central UP), together with 25% stamp duty reimbursement to industrial estates being developed by private sector.

Maharashtra government imposes 5% VAT on flat sales with retrospective effect

Following the order of the Supreme Court in the case of K Raheja Vs Karnataka government, the Maharashtra Government imposed Value Added Tax (VAT) at the rate of 5% of the value of flats, shops and bungalows on buyers of under-construction property in Maharashtra, who had indulged the transactions between 20 June 2006 and 31 March 2010.

Maharashtra government amends Development Control Rules for Mumbai

With a view to minimise discretion while giving building permissions and address the issue of rising corruption in the sector, the Maharashtra Government amended Development Control Rules (DCR) for Mumbai city. With the recent amendments to the DCR for Mumbai, the space comprising of balcony, flower-beds, terraces, voids, niches would be counted in the FSI.

The government has also relaxed the provision of open space requirements to 1.5 metres for development of small plots. The amended DCR has also relaxed the mandate of two staircases for buildings above 24 meters, included provisions for emergency evacuation device and construction of fire check floor for buildings over 70 metres in height, etc.

Under the revised FSI policy, the state government also recently approved 32 public parking lots in Mumbai.

News round-up: regulatory

Maharashtra Government hikes township FSI

In an attempt to encourage creation of new economic hubs, the Maharashtra Government has categorised businesses centred on education, hospitality, healthcare, and entertainment sectors, among others, as economic activity. Further, the State Government has also decided to mandate township projects to set aside up to one-fourth of the land for economic activity. Besides, the government has hiked the available FSI to 1.5-1.7 from 1 for the developable areas in the Mumbai Metropolitan Region (MMR).

The FSI has been hiked to 1.5 for townships spread across 40-100 hectares, 1.6 for 100-200 hectares and 1.7 for townships above 200 hectares. The government has also barred any township development in ecologically sensitive zones, and hiked FSI for development of other 'green' zones existing alongside transport corridors.

A notification was issued by the government mandating all projects being constructed in the 26 municipal corporations and all municipal councils in Maharashtra over 2,000 square metres of land to earmark 20% of the plot or constructed space for smaller sized affordable housing.

The notification further states that a minimum of 20% of land will be handed over to the Maharashtra Housing and Area Development Authority (MHADA) for projects involving sub-division of the 2,000 square metres of land.

Brihanmumbai Municipal Corporation (BMC) clears new property tax system

Following the clearance of the new property tax proposal by the BMC's statutory standing committee, the capital value based property tax system was also cleared. The new capital value property tax system will replace the existing rateable value system, under which property tax was calculated according to the rent a unit commanded during the first year of its existence.

Aimed at rationalising taxes, the new system will base taxes for all buildings (old and new) according to the ready reckoner rate. The new capital value property tax system will serve to enhance the property tax payable in city, while the realty located in the suburbs will have to pay less property tax as compared to the current rates.

News round-up: regulatory

Land pooling system planned by the Hyderabad Metropolitan Development Authority

Hyderabad Metropolitan Development Authority (HMDA) has proposed to implement land pooling schemes (LPS) in some pockets of the city with an aim to ensure planned growth in the Hyderabad Metropolitan Region. The State Government is planning to implement LPS in order to permit development across unapproved layouts of land available in and around the city.

When implemented, LPS scheme will enable individual plot owners to come together to develop a huge chunk of land, 100 acres or above, complete with basic amenities such as road, water supply, street lighting and green space.

New Development Plan for Pune approved

The new Development Plan (DP) for the old Pune city area was approved by the City Improvement Committee (CIC) of the Pune Municipal Corporation (PMC). The DP spans the development activities to be undertaken for the city between 2007 and 2027, and contains special provisions for the metro rail project, schemes for housing for the poor, a transport hub, and cluster development of old derelict wadas.

The new DP for the old city area also proposes additional FSI for hotels having four star or more. Ready reckoner approach will be used to set the rate for the additional FSI.

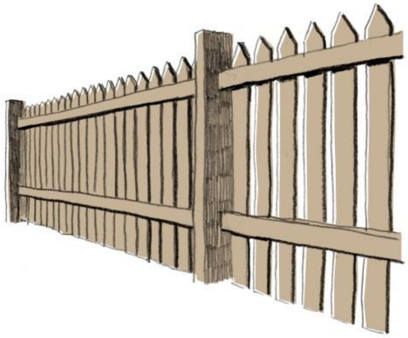
Andhra Pradesh Government planning to hike land value by 20%

The State Government is contemplating to increase the land value, both agriculture and non-agriculture, for registration purposes in Andhra Pradesh. When implemented, this proposition will force property buyers to pay more towards registration and stamp fee.

News round-up: regulatory

Karnataka Land Revenue (Amendment) Bill, 2012 passed by the State Assembly

The new law of regularisation will cover all dwelling units without authorisation built on government land prior 01 January 2012. The rules will be applicable to all developments in the state, excluding the houses built without authorisation on government land coming under Bruhat Bengaluru Mahanagara Palike, City Municipal Corporations and Town Municipal corporations.



Land purchase laws to be amended

In an attempt to address the issues of illegal transactions and evasion of taxes, the Government is planning the amend two key land purchase laws including the Benami Transactions (Prohibitions of the Right to Recover Property) Act, 1989 and SEZ (Special Economic Zone) Act, 2005. As a part of the project to amend the Benami Transactions (Prohibitions of the Right to Recover Property) Act, 1989, the government is conducting surveys on the status of 'bhoodan' land, common property resources in villages and settlement operations in tribal sub-plan areas.

By amending the current Benami Transactions (Prohibitions of the Right to Recover Property) Act, the government intends to make it more effective at monitoring evasion of ceiling laws through fraudulent land transaction. Further, the government expects the amended SEZ Act, 2005 to be more effective in tackling exemptions on diversion of land in scheduled areas as well as transfers of common property and agricultural land for SEZ purposes.

News round-up: regulatory

Government contemplating several initiatives to revive growth across SEZs

In a move that can provide the much-needed boost to the slackening pace of growth in the SEZs, the Ministry of Commerce and Industry is set to make several amendments in the existing SEZ policy. The government has proposed to relax the threshold limit for each sector-specific SEZ considering the severe constraints faced by the developers in acquiring huge tracts of contiguous land.

Apart from mandating ring-fencing for IT SEZs, the government has also proposed to make a significant amendment to the SEZ policy with regard to the 'contiguity' norms, in the wake of the delays in projects due to problem of a highway, water pipeline, railway track, canal, or sewage line passing through the enclaves.

Other key amendments would be to further dilute the definition of 'vacant' land, and delineating an operational building on that particular land from duty concessions.

In addition, the government is also planning a new set of guidelines, and relax the Minimum Alternative Tax (MAT) and Dividend Distribution Tax (DDT) with a view to revive growth in the SEZs. The government is also planning a slew of mid-course correction in rules guiding investments in the SEZs.

News round-up: financial

RBI refuses the proposal to restructure real estate loans

Banks across the country have been urging the RBI to restructure their real estate loans due to rising bad loans that are eroding their profitability. However, RBI turned down the banks' demand for restructuring stressed real estate loans without providing for potential losses. This decision of the RBI is nevertheless expected to encourage developers to lower capital values of realty projects to boost sales.

Sales department mandates VAT on real estate transactions with retrospective effect

The Sales department issued a circular during August 2012 to developers levying VAT on flats, shops and bungalows sold by them between 20 June 2006 and 31 March 2010. Thereafter, several developers have been sending notices to buyers who have purchased flats between 2006 and 2010 to pay VAT at the rate of 5% of the value with retrospective effect.

RBI issues new notification to calculate the value of a property

With an aim to provide enhanced clarity to end-users and investors for the property purchase process, RBI has notified that stamp duty, registration and other charges will be made exclusive during the calculation of the value of a property.

Government withdraws its proposal to levy 1% (Tax Deduction at Source) TDS on transfer of immovable property

The Finance Ministry revoked the imposition of 1% TDS on transfer of immovable property for transactions where sale value exceeds Rs50 lakh in urban centres and Rs 20 lakh in other areas, proposed in the Union Budget 2012-13. The proposal, which was meant to deter the generation and use of unaccounted money, was to be made effective from 01 October 2012.

News round-up: financial

Home loan subsidy scheme extended till March 2013

The Home Ministry has extended the interest subvention scheme for home loan borrowers by one year till 31 March 2013. The scheme offers 1% subvention on housing loans up to Rs 15 lakh, provided the cost of the housing unit does not exceed Rs 25 lakh. With the extension of the scheme, the subsidy cap for an individual borrower has been raised to Rs 9,925 for a loan of Rs 10 lakh, and Rs 14,912 for a loan of Rs 15 lakh. For the implementation of the scheme, budgetary provision of Rs 400 crore has been made for the financial year 2012-13. National Housing Bank (NHB) will serve as the nodal agency for executing the scheme both for banks and housing finance companies.

Housing Finance companies permitted to raise funds via ECBs

A high-level committee on External Commercial Borrowings (ECBs) has issued a notification permitting National Housing Bank (NHB) and housing finance companies to use end-use linked ECBs and raise funds to finance the development of housing projects for low-income groups in major cities and towns. Previously, the real estate sector was not permitted to go in for ECBs.

RBI provides infrastructure status to key sub-sectors

In a move that will pave way to a host of sub-sectors to avail a longer period at lower rate of interest from banks, the RBI provided infrastructure status to several key segments including LNG and oil pipelines, water treatment plans, telecom towers, and three-star hotels, etc. The sub-sectors that have provided with the new status include roads and bridges, ports, oil pipelines, oil/gas/liquefied natural gas storage facility and gas pipelines, inland waterways, airport, railway track, tunnels, viaducts, bridges and urban public transport.

Also, water supply pipelines, water treatment plants, sewage collection, treatment and disposal system, solid waste management, storm water drainage system projects, irrigation (dams, channels, embankments) and telecommunication towers have been provided infrastructure status. The new status is also applicable on hospitals, three-star or higher category hotels located outside cities with over one million population, education institutions, common infrastructure for industrial parks, SEZ, agriculture markets, fertiliser (capital investment), tourism facilities, terminal markets, soil-testing laboratories, post-harvest storage infrastructure for agriculture, etc.

News round-up: financial

Securities and Exchange Board of India (SEBI) allows 12 additional Alternative Investment Funds (AIFs)

Between October and December 2012, market regulatory body - SEBI allowed 12 entities to establish AIFs, a new class of pooled-in investment vehicles for real estate, PE and hedge funds. Previously, SEBI had also permitted nine AIFs to set up shops in the country. In May 2012, SEBI had notified a set of guidelines for establishing a new class of market intermediaries named AIFs. These are basically funds established or incorporated in India for the purpose of pooling in of capital from Indian and foreign investors for investing as per a pre-decided policy.

In August, SEBI had permitted promoters of listed companies to offload 10% of equity to AIFs Funds registered with the market regulator to attain minimum 25% public holding. The SEBI guidelines permit the AIFs to operate in three broad categories. While the Category-I AIFs comprise of the funds that get incentives from the government, SEBI or other regulators, Category-III AIFs are those trading with a view to making short-term returns.

The former include Social Venture Funds, Infrastructure Funds, Venture Capital Funds and SME Funds, and the latter include hedge funds, among others. Further, Category-II AIFs can invest anywhere in any combination, and include PE funds, debt funds or fund of funds. However, they are prohibited from raising debt, except for meeting their day-to-day operational requirements.

Government planning to permit Real Estate Investment Trusts (REITs) to invest in rental property

Housing and Urban Poverty Alleviation Ministry is working on framing a policy paper permitting real estate investment trusts (REITs) to participate in the country's rental housing market.

Tax on land use change to be imposed by Uttarakhand Government

With an aim to increase its earning from the development fees of land use change to Rs 70-90 crore a year, the Uttarakhand Government is planning to levy fee taxes on agricultural land falling beyond the development authorities’ domain and non-regularised zones for their usage of non-agricultural purpose and their related declaration.

News round-up: financial

National Housing Bank (NHB) plans to increase the outlay under Rural Housing Fund during FY'13

With a view to mitigate the housing shortage across the target groups, the National Housing Bank (NHB), a wholly-owned subsidiary of Reserve Bank of India, is planning to hike its disbursal for rural housing by 33% from Rs 3,003 crore in FY'12 to Rs 4,000 crore in FY'13. Since the establishment of Rural Housing Fund in 2008-09, a total amount of Rs 8,778.18 crore has been received by NHB under the Fund, which has been utilised to refinance rural housing for the targeted segments benefiting 336,000 dwelling units. By enhancing the current disbursal of the Fund, the NHB plans to pave way for reducing the housing shortage in rural areas, and provide access to basic services such as drinking water, sanitation and electricity to a higher proportion of the below poverty line (BPL) population.

NHB encourages lenders to fund partially finished housing projects

In an attempt to revive growth in the housing sector and reduce the pile-up of unsold inventory across the top six cities of the country, the National Housing Bank (NHB), encouraged lenders to fund partially finished housing projects that have stalled due to shortage of funds. The pile-up of unsold inventory currently stands at 28 months in the National Capital Region (NCR) and 39 months in the Mumbai Metropolitan Region (MMR), against a national average of 22 months. NHB has advised all housing finance companies across the country to reassess the projects that are viable but are stuck due to the exorbitant rise in home prices.

Accounting standards for the real estate sector to be rolled-out soon

Faced with the challenge to bring about uniformity in reporting of financial results, the Revenue Department is planning to develop accounting standards for the real estate sector. The new accounting standard for revenue recognition in the real estate sector for tax purposes will enable the Central Board of Direct Taxes (CBDT) to ascertain the revenue from projects that are under construction.

News round-up: financial

RBI eases norms for NRIs seeking to invest in real estate sector

With its recent notification to relax the norms of operation of joint accounts considerably, the RBI has paved way for NRIs to indulge in residential or commercial property investment in India. Further, the RBI has also clarified the provisions of the Liberalised Remittance Scheme wherein income and sale proceeds of assets held abroad need not be repatriated to India and can be retained and invested outside India. Besides increasing increase remittances by permitting NRIs to hold joint accounts with Indian residents, the proposal also permits any resident relative of the NRIs to operate the account as a power of attorney holder.

New model of calculating property tax to become a reality in Nagpur

The Nagpur Municipal Corporation (NMC) is currently working on the finalisation of a new model of calculating property tax. The new model, popularly known as ready reckoner based property tax has classified taxpayers in various categories based on difference in location of property. Previously, the property taxpayers had been classified into open land, residential and non-residential categories.

The new model will demarcate property taxpayers in four categories - open land, residential, commercial, and industrial, each having various sub-categories along with individual weightage as per an approved weightage system. Open land will have 16 sub-categories, while commercial will have 47. On the other hand, residential will have 10, and industrial will have seven sub-categories. While the new model will increase property tax for majority of taxpayers, it would have a cap system to ensure that the increase is up to three times for commercial and two times for residential taxpayers due to a cap system.

News round-up: financial

The property tax will be calculated by taking five factors into account, including user category and built up area nature and type of building, age of building and floor, with each factor having a separate weightage.

Tax-free bonds to be launched by the Housing and Urban Development Corporation Limited (HUDCO) shortly

The Housing and Urban Development Corporation Limited (HUDCO) is planning to launch a public issue of tax-free bonds in January 2013. Once launched, the policy will permit real estate developers to raise up to Rs 5,000 crore for financing low-cost housing and urban infrastructure projects. To qualify in the retail category the investor would be required to raise up to Rs 10 lakh. For such investors, the bond issue carries a coupon rate of 7.84% for 10 years and 8.01% for 15 years maturity period.

In addition, HUDCO is also planning to come out public issue of tax-free bonds qualified institutional buyers (QIB), corporates, high-net worth individuals, for which the coupon rate has been fixed at fixed at 7.51% per annum for 15 years and 7.34% per annum.

RBI opens up External Commercial Borrowing (ECB) route for affordable housing projects

In an attempt to give a fillip to low-cost affordable housing projects, RBI has permitted estate developers and housing finance companies to raise up to US$1 billion through External Commercial Borrowing (ECB) route during the 2012-13 fiscal. The policy mandates developers develop low-cost housing projects as well as finance companies (HFCs)/National Housing Bank (NHB) to provide loans up to Rs 25 lakh to individuals for buying units falling within a price range of Rs 30 lakh or less.

News round-up: miscellaneous

Housing projects approved under Jawaharlal Nehru National Urban Renewal Mission lagging behind schedule

According to the latest data released by the Comptroller and Auditor General (CAG), only 22 of the 1,517 housing projects approved under Jawaharlal Nehru National Urban Renewal Mission for implementation between 2005 and 2011 were completed by the due date of March 2011. The report also states that status of dwelling units within these housing projects were only marginally better. Further, of the 1,298 approved urban infrastructure projects, only 231 projects were completed. The report also says that against an allocation of Rs 66,084.66 crore by the Planning Commission for the approved projects, just Rs 37,070.15 crore had been allocated by the Government of India. Of the allocated Rs 37,070.15 crore, only Rs 32,934.59 crore had been released till 31 March 2011.

Government set to sanction funds for a national online urban database

The Central Government is planning to establish a national online database with an aim to permit town planners and researchers to access authentic urban development-related data, as well as data pertaining to municipal finances. The National Institute of Urban Affairs (NIUA) had proposed the development of the database during February 2012. Estimated to cost the ministry around Rs 50-60 lakh a year, the database will be managed jointly by NIUA and National Informatics Centre (NIC).

The database will also serve as a collection of relevant data from secondary sources including National Sample Survey Office, Central Finance Commission's municipal finance data, National Urban Information System, Central Statistical Office, Annual Survey of Industries, Economic Census, Census of India, National Family Health Survey, Institute of Urban Transport, Centre for Monitoring Indian Economy, etc.

News round-up: miscellaneous

Delhi Development Authority (DDA) has rolled-out its new farmhouse policy

As a part of its new farmhouse policy, the DDA has declared 26 villages as low-density residential areas for development. The villages included in the list include Gadaipur, Chandan Hula, Jhatikara, Kanganheri, Holambi Khurd, Sultanpur, Mehrauli, Ghitorni, Rangpuri, Chhawala, Pindwalan Khurd, Rewla Khanpur, Sayurpur, Satbari, Fatehpur Beri, Asola, Jounapur, Paprawat, Ghuman Hera, Chhattarpur, Khanpur, Devli, Bhatti, Bakoli, Bakhtawar Pur and Hiranki.

The new notification states that parts of Mehrauli, Sultanpur, Ghitorni and Gadaipur villages along the Mehrauli-Gurgaon Road will be eligible for high-density development, as part of the Transit Oriented Development (TOD) plan. TOD will help reduce usage of private vehicles and permit higher FAR along MG Road in villages which fall in the influence zones. Further, the policy also has a provision for regularisation of those unauthorised farmhouses built before 02 February 2007 wherein the owners are bound to pay a penalty.

However, the notification is not applicable for areas falling under regional parks, wherein development rules will be as per the Master Plan for Delhi-2021 (MPD -2021). Low-density residential development projects in areas such as Chhattarpur and Khanpur will be imposed relevant stipulations by the DDA, arising out of Supreme Court orders.

Chandigarh Administration to draft Master Plan for making Chandigarh slum-free

Chandigarh Administration has submitted a report to the Punjab and Haryana High Court following the hearing of public interest litigation (PIL) by the High Court seeking the Administration to prepare a master plan for the city. The report puts forth a series of initiatives, including making it mandatory for all private houses and industrial plots of one kanal and above, who engage servants or labour to make available suitable accommodation for them within their premises, for making Chandigarh a slum-free city.

The Administration has proposed to mandate the provision for EWS housing during the rehabilitation of identified pockets of government housing as well as private housing. The Administration plans to take proactive steps to provide affordable houses for those working in Mohali and Panchkula.

News round-up: miscellaneous

DDA considering draft suggestions for the Master Plan Delhi-2021

Recently four expert groups comprising of urban planners, architects and government officials were invited by the DDA to provide suggestions for changes in the Master Plan Delhi-2021. The DDA is currently considering the draft suggestions including redevelopment to transport with extra focus on improved mobility, preparation and implementation of a local area plan based on 3D samples, site-specific development and control norms, specifically for changes in FAR and parking space, etc, for amending the Master Plan Delhi-2021.

Green norms for units in proposed manufacturing zones eased

The government has decided to relax the stringent green norms across the proposed mega industrial enclaves. Besides giving top priority to such projects for environmental clearances, the government has also proposed to relax their procedures for green approvals. As per the new policy, the individual units within proposed National Manufacturing and Investment Zones (NMIZs) will be exempted from public hearings. However, the proposition is subject to the clause that the hearing had once been held for the entire zone, and has been notified by the concerned state government.

When implemented, the new policy can provide the much needed boost to the National Manufacturing Policy, while also enhancing the contribution of the manufacturing sector to 25% from current 16% to the country's Gross Domestic Product (GDP). Further, the policy is also expected to accelerate the momentum of development of the US$90 billion Delhi-Mumbai Industrial Corridor (DMIC).

News round-up: miscellaneous

Buyer-seller agreement in two DLF projects modified by CCI

The CCI modified the agreement between DLF group and apartment owners in its two projects in Gurgaon of late. DLF had earlier been imposed with a penalty worth Rs 630 crore by CCI for abuse of dominance, which was challenged by the real estate major in Competition Appellate Tribunal (COMPAT).

Following CCI's inquiries into complaints filed by flat buyer associations of two DLF projects - DLF Park Palace and The Belaire, the agreement between DLF and apartment owners has been modified through a supplementary order. With the COMPAT directing the CCI to modify the buyer-seller agreement, the Apartment Buyers Agreement has been amended, thereby eliminating the abusive and unfair conditions in the original one-sided agreement in Belaire, Park Place and Magnolia projects of DLF. Thereafter, CCI also dismissed an appeal by DLF seeking anti-dominance sanctions against a new project to be launched by the developer shortly.

News round-up: miscellaneous

Rainwater harvesting made mandatory by the Karnataka Housing Board

Rising concern with respect to groundwater depletion has prompted the Karnataka Housing Board (KHB) to make rainwater harvesting compulsory in all its layouts in Hubli and Dharwad. Besides, the Bhopal Municipal Corporation (BMC) has also mandated rainwater harvesting for all houses having less than 1,000 square feet area.

Delhi Government mandates cool roofs for all new buildings

The Delhi Government directed all building construction and maintenance agencies to implement cool roofs in upcoming private and government buildings. The notification came in force following a report from the Power Ministry's Bureau of Energy Efficiency, which states the adoption of cool roofs can reduce the electricity consumption by over 25%.

DDA to come up with a comprehensive parking policy for the capital city soon

Travel demand management principles are being taken into account by the DDA to prepare a comprehensive parking policy with the intent of addressing the parking problem in the national capital - Delhi. The policy will be based on travel demand management principles as recommended in Master Plan for Delhi-2021 (MPD - 2021).

Real estate sector seeks extension to complete projects for tax benefit

In a letter to the Prime Minister, National Real Estate Development Council (Naredco) has requested the Government to extend the computation period for availing income tax benefits by the real estate sector by one more year beyond the stipulated 31 March 2012. As per the provision, a developer will be eligible for 100% deduction in respect of profit from those housing projects where approval from a local authority has been obtained between 01 April 2005 and 31 March 2008. Keeping global recession in mind, developers were permitted to complete the projects on or before 31 March 2013, in order to avail the tax benefits.

News round-up: miscellaneous

March 2013 set as the deadline for preparing the approach to sustainability document for the National Building Code

Indian Green Building Council (IGBC) has prepared and circulated the approach to sustainability document for the National Building Code of India to the State Governments, municipalities and other stakeholders for their suggestions and objections. Once reviewed, IGBC intends to incorporate the necessary changes and release the document for public use by March 2013. The National Building Code for India, first prepared during 1960s and reviewed in the 1980s and 2005, was revisited in 2012 to factor in current changes and facilitate its adoption by various states.

Chawls of the Bombay Development Directorate stuck-off the heritage list

With the State Development planning to undertake their redevelopment, the century-old Bombay Development Directorate (BDD) chawls will be struck off the latest heritage list. Besides, the government is also planning to remove other vital cessed buildings or landmarks from the heritage list. The proposal will pave way for urgent repairs of the old and dilapidated structures.

Of all the chawls currently included in the list by the corporation and heritage committee, the government intends to remove 207 chawls built by the British in central Mumbai. Nineteen of the total number of 207 chawls are located on the Mumbai Port Trust (MbPT) land, while the others are scattered around Naigaum, Lower Parel and Sewri.

Satellite data to be used in Haryana for monitoring infrastructure projects

With a view to plan and monitor the progress of the various programmes and schemes underway in the state, the Haryana Space Application Centre (HARSAC), Hisar is developing the spatial data infrastructure to provide satellite data and thematic maps. For supporting the project, Department of Science and Technology, Government of India has provided a grant of Rs 2.03 crore.

News round-up: miscellaneous

All the satellite data and thematic maps will be available at HARSAC resources, and will be made accessible to all the departments. As a part of the project, HARSAC has initiated a slew of sub-projects including Space Based Information System for Decentralised Planning (SIS-DP), demarcation of unauthorised colonies, groundwater prospects mapping for Haryana, mapping and management of water logging in central Haryana, preparation of police station jurisdiction atlas of Haryana and National Urban Information System (NUIS), delineation of paleochannels, etc.

SVAGRIHA conceptualised for buildings lesser than 2,500 square metres

With a view to enhance of focus of energy efficiency for buildings to also include smaller buildings, whether residential or commercial, GRIHA (Green Rating for Integrated Habitat Assessment) has conceptualised SVAGRIHA (Small Versatile Affordable GRIHA) that will enable buildings that are less than 2,500 square metres to reduce their carbon footprint. The project, which has been launched by the Energy and Resources Institute (TERI), is a focused programme that will evaluate buildings on 14 parameters. The cost of registration and evaluation for the projects for getting a SVAGRIHA rating will be between Rs 60000 and Rs 100000.

State Government reduces premium rates for land-use conversion across the major cities in Rajasthan

The Rajasthan Government has reduced the land-use conversion rates for agricultural and commercial land. While the premium rates for converting agricultural land into non-agricultural one has been revised from Rs 100-300 per square yard to Rs 60-200 per square yard, the premium conversion charges for commercial land have been slashed from Rs400-1200 per square yard to Rs 400-800 per square yard. In Jaipur, the revised rates will be Rs 150-200 per square yard for the conversion of agricultural to non-agricultural land, and Rs 600-800 per square yard for commercial use. The new rates will come into effect retrospectively on all land conversions affected after 17 June 1999 when the government banned land conversions for private housing cooperative societies.

News round-up: miscellaneous

Government to initiate the long-delayed Rs 15,000 crore-Dharavi Redevelopment Project

The State Government has issued a notification that can expedite the delayed redevelopment of one or more of the five sectors of Dharavi. As per the notification, Maharashtra Housing and Area Development Authority (MHADA) or any other public authority can kick-start the Rs 15,000 crore-Dharavi Redevelopment Project (DRP). First notified in 2004, DRP was set to relocate the 60,000 families living in Dharavi to high-rise apartments that were to be developed by developers using the incentive FSI. Thereafter, the project witnessed the slump in the number of bidders of the project from 19 to 7 following the 2009 downturn.

The notification details the redevelopment of hutments, chawls, commercial establishments and cessed buildings across the 535-acre town using an FSI of 4. The notification also details the eligibility of the slum-dwellers to the apartments that are to be constructed. While slum-dwellers living in cessed structures and chawls up to 750 square feet will be eligible to an equivalent area free of cost, those living in bigger houses will have to pay for the additional area.

Further, all slum-dwellers living in hutments prior to 2000 will be eligible for self-contained 300 square feet one bedroom apartments with balcony, while those living in much larger shanties at present will be eligible for a maximum 400 square feet house by purchasing the extra 100 square feet at the construction cost.

While the notification currently only focuses upon the development of the 23-hectare Sector 5 of the town by MHADA, the redevelopment of other four sectors will be carried out either by MHADA or private developers selected through fresh bids. As a part of the project, MHADA will be developing 14-storey buildings having rooms measuring 300 square feet that will accommodate residents of 344 tenements living over the 2 square kilometres area of Sector 5. The project, which has been earmarked Rs 45 crore in MHADA's budget, will be implemented in phases. Of the earmarked amount, Rs 25 crore will be used to construct dwelling units on 0.3 hectares of land, while the remaining amount will be used to appoint a consultant who will chalk out details for the project.

The way forward

"The year 2012 was not much of a rejoice for the sector, there was sluggishness in the activity (be it construction, project deliveries or marketing, investments). On one side, the sector was crippled by inadequacy of funds, on the other side it has been looking forward to new regime of regulations by way of real estate bill, land acquisition bill, *et al*… however, there were slight signs of positivity, in terms of Government opening the doors for FDI in retail and towards the end of the year, the Government has been transmitting positive vibes and hopefully things will start working for the sector.

2013 is definitely poised for a new beginning for the sector, wherein some of these key bills will hopefully become laws, the much needed cut in the Cash Reserve Ratio (CRR) and repo rates from the RBI is a step in the right direction. I am sure a few more strokes of this sort will bring cheer to the community. It is believed that the advent of new cities under the tier III category will expand market for the sector and the impact in some of the matured markets (say NCR, Mumbai, Bangalore) will be seen due to the significant deliveries of project scheduled in this year.

Technology will also play a key role, wherein more and more companies are making this aspect a key component of their project plan and design, with the ultimate objective of sustainability and promotion of green practices."

Neeraj Sharma

About Grant Thornton

Grant Thornton International

Grant Thornton International is one of the world's leading organisations of independently owned and managed accounting and consulting firms. These firms provide assurance, tax and specialist advisory services to privately held businesses and public interest entities.

Clients of member and correspondent firms can access the knowledge and experience of more than 2500 partners in over 100 countries in order to consistently receive a distinctive, high quality and personalised service wherever they choose to do business. Grant Thornton International strives to speak out issues that matter to business and which are in the wider public interest. Its aim is to emerge as a bold and positive leader in its chosen markets and within the global accounting profession.

Grant Thornton India LLP

Grant Thornton India LLP is a member firm within Grant Thornton International Ltd. The firm has today grown to be one of the largest accountancy and advisory firms in India with over 1,200 staff in New Delhi, Bangalore, Chandigarh, Chennai, Gurgaon, Hyderabad, Kolkata, Mumbai and Pune, and affiliate arrangements in most of the major towns and cities across the country. The firm specialises in providing assurance, tax and advisory services to growth-oriented, entrepreneurial companies.

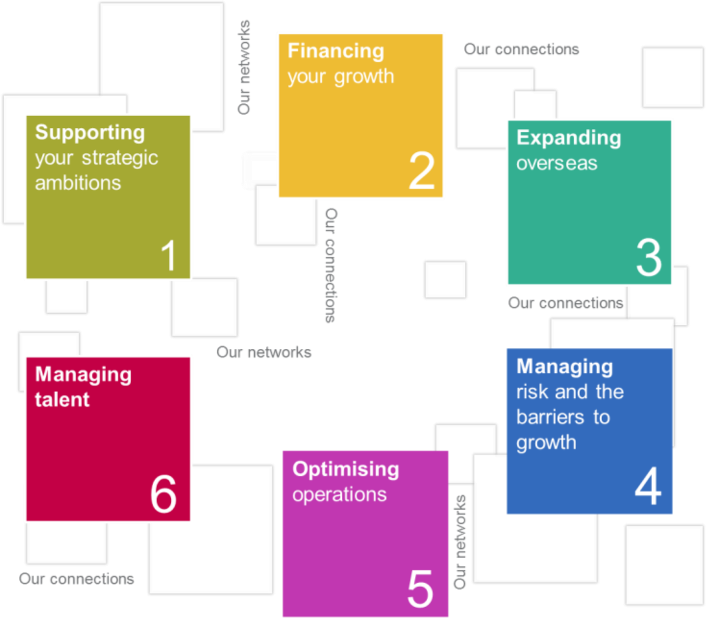
Grant Thornton

An instinct for growth™

Unlocking the potential for growth in dynamic real estate organisations

We believe that sustaining long term growth in successful organisations means looking at many different aspects of the business simultaneously. Financial measures, operational efficiency, new ways of working and stakeholder relationships all must grow together if dynamic organisations are to fully achieve their objectives. To help real estate organisations unlock their potential for growth, we provide world-class advice in six core areas.

To know more about our solutions for real estate businesses, please write to us at **realestate.solutions@in.gt.com**

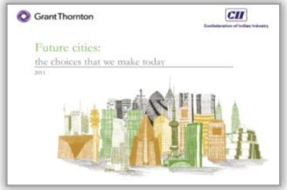


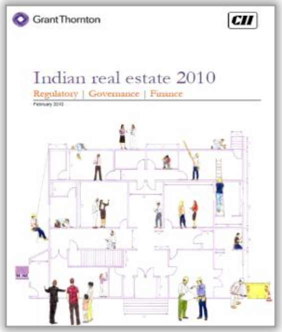
Insights for real estate leaders in India

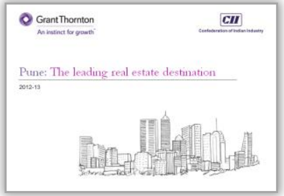
Grant Thornton India LLP strives to speak out on matters that relate to the success and sustenance of your business. Through our publications, we seek to share our knowledge derived from our expertise and experience. The firm publishes a variety of monthly and quarterly publications designed to keep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

- Real estate insights and updates – **Real Estate Handbook 2011, RealtyReality**
- Emerging trends in real estate
- Future cities: the choices we make today

Visit our Blog at **www.grantthornton.in/insights** to know more about our Thought Leadership initiatives.







Research and Editorial team

Neeraj Sharma, Vikram Jethwani and Misbah Hussain

Contact us

To know more about Grant Thornton, 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 110 001
T +91 11 4278 7070

BENGALURU
“Wings”, First floor
16/1 Cambridge Road
Ulsoor
Bengaluru 560 008
T +91 80 4243 0700

CHANDIGARH
SCO 17
2nd Floor
Sector 17 E
Chandigarh 160 017
T +91 172 4338 000

CHENNAI
Arihant Nitco Park, 6th floor
No.90, Dr. Radhakrishnan Salai
Mylapore
Chennai 600 004
T +91 44 4294 0000

GURGAON
21st Floor, DLF Square
Jacaranda Marg
DLF Phase II
Gurgaon 122 002
T +91 124 462 8000

HYDERABAD
7th Floor, Block III
White House, Kundan Bagh
Begumpet
Hyderabad 500 016
T +91 40 6630 8200

KOLKATA
10C Hungerford Street
5th floor
Kolkata 700 017
T +91 33 4050 8000

MUMBAI
16th floor, Tower II
Indiabulls Finance Centre
Senapati Bapat Marg
Elphinstone (W), Mumbai 400013
T +91 22 2367 1623

PUNE
401, Century Arcade
Narangi Baug Road
Off Boat Club Road
Pune 411 001
T +91 20 4105 7000