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Indian Real Estate Sector Handbook

2015 Annual Edition

Foreword

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Regulations, cohesiveness, transparency and efficiency are the fundamental characteristics of any mature industry or sector. Over the past few years, the Indian real estate sector has seen some improvement in terms of regulation. These small steps have aligned the sector fundamentally towards professionalism. The Real Estate (Regulation and Development) Bill is likely to see the light of the day in coming months. The Bill finally got the nod of Rajya Sabha on 10 March. If the Bill is enacted and is notified as a law, it will create a level playing field for both the buyers and the developers. It also proposes to establish State Real Estate Regulatory Authorities for states. These will address the grievances against errant builders. However, this will happen once every state ratifies this Act and establishes a state authority on the lines of the law. Among the many provisions, this Bill also proposes to bring more transparency by making the stakeholders (read developers) more responsible towards delivery and use of funds allocated for the projects.

On the back of the reforms initiated in 2014, the year 2015 witnessed a number of government initiatives to further push reforms and set the sector out of the rut. Notable amongst them was easing of the foreign direct investment (FDI) norms – removal of the minimum floor area conditions and relaxation of exit norms amongst others. These are now expected to attract more FDI in to the sector, especially towards affordable housing projects. The volume of deals in 2015 was the lowest in the last five years; value-wise it was only marginally higher than the 2011 levels. With further relaxation to the FDI norms, one can only expect heightened interest in the sector leading to more deals and higher average deal values. It can be a much needed relief to the liquidity-starved sector.

Another key development during the year was the clarifications around the Real Estate Investment Trusts (REITs) regime. However, not a single REIT got listed in 2015. This is primarily because the sector is seeking some more clarification on the taxation structure of the proposed REITs. Moreover, the current real estate taxation environment is not attractive enough to pull retail investors towards the market. There was uncertainty on the applicability of Minimum Alternate Tax (MAT) and foreign investments in the assets. Later during the year, the government issued clarifications on these matters. The clarity on the matter has come as a welcome relief for those planning to list their REITs. Nonetheless, the biggest casualty of this uncertainty was the joint venture between Private Equity (PE) firm Blackstone Group and real estate firm, Embassy who decided to shelve plans to list a US$ 2 bn REIT in India due to tax issues. But the real estate market promises growth in the future on the back of reduced interest rates and rise in rental income from office real estate; 2016 may see some REIT launches.

With the numbers stacked against the government in the Rajya Sabha of the Parliament, the government could not pass the Land Acquisition Amendment Bill. The proposed amendments were opposed by certain sections of the society who found voices of support in the parliament. Since this Bill could not be passed, the ordinance was allowed to lapse and the land acquisition has been left to the state governments. Several state governments have also framed their own policies to expedite acquisitions and bring in investments.

Several schemes of the government such as the Smart Cities Mission and Housing for all, which were announced in 2014, also saw some encouraging developments in 2015. The list of the first 20 cities to be developed as Smart Cities has been released. While this has attracted a host of corporates, a number of countries have pledged their support to this ambitious scheme. In addition to this, to boost housing supply in the country, several state governments have already announced incentives for affordable housing projects. These projects too have in turn encouraged corporates to foray in to the market.

While the transaction volume in the residential space continued to be on the lower side, the year turned out to be a good year for the commercial real estate market, with improvements in both demand and supply. However, the Achilles' heel for the economy continues to be the construction and infrastructure sector. Of all the delayed projects in this sector, 31 percent were road projects. These are mainly due to paucity of funds in the market, high amount of litigations and pending clearances over a number of projects.

The government has also relaxed exit norms from the Build-Operate-Transfer (BOT) projects, adopting a new contract based method to attract firms to road contracts. The government has also amended the Arbitration and Conciliation Act thereby defining a time frame within which a dispute is to be settled.

While there have been a lot of positive developments on the ground, the sector is still in a wait-and-watch phase. Though we expect to see a more regulated sector in 2016.

Key highlights of 2015

Month	Highlights
December	• Cabinet approves the Real Estate Bill, 2015 • COMPAT quashes CCI's INR 6,316 crore penalty on cement firms • Godrej Properties sells 300 flats in one week for INR 700 crore in Mumbai
November	• AMRUT action plans for 81 cities approved with total project outlay of INR 5,748 crore • Government relaxes restrictions on Foreign Direct Investments in the sector
October	• Centre all set to launch its own realty portal • Stamp duty proposed to be scrapped on property transfers to REITS
September	• Land law: Government issues order to include 13 central Acts • Government releases smart cities list • 305 cities identified under 'Housing-for-All' scheme
August	• Record deal for Mumbai penthouse - INR 202 crores • Construction labourers to get medical benefits under Employee State Insurance scheme
July	• Property registration to be made online in Delhi • World Bank approves US$ 650 million loan for Eastern Freight Corridor
June	• Pension Fund Regulator allows funds to invest in realty sector • 6.5% interest subsidy on housing loans for poor
May	• Cabinet nod to foreign investment in completed rent-yielding assets • Government plans single-window FDI nod • Relief for foreign investors and REITs
April	• Cabinet clears creation of real estate regulator • Blackstone-Embassy JV shelves US$ 2 billion REITs listing
March	• DIPP clarifies rules for FDI in construction • Centre's new, improved real estate bill ready for roll-out
February	• National Urban Housing Scheme put on hold • Government plans Provident Fund investment boost for infrastructure, low-cost housing
January	• Draft note floated for foreign funds in REITs • MoEF eases green norms for big buildings and other social projects

Contents

Regulatory reforms

The big picture

The series of pro-reform announcements of 2014 laid the foundation of hope for the sector and consumers in 2015. Announcements on the Real Estate Investment Trusts (REITs), the Real Estate Regulation and Development Bill and the Land Acquisition law were expected to finally take off and benefit the sector. However, struggling for consensus inside and outside the parliament, the going has not been easy for the government. Several clarifications, notifications and new measures were introduced in 2015 to calm the anxiety and confusion around the reforms – revised foreign direct investment rules, clarity on REITS, the revised Real Estate Regulation and Development Bill, the Land Acquisition Amendment Bill amongst others. While some of the measures helped bring in some hope for the sector, some other pending reforms still remain to be introduced.

Foreign Direct Investment (FDI)

The initial boost

In the current year, to boost cash inflows, the government had relaxed several rules for FDI in the construction thereby expecting to attract the foreign investors to the sector. While these initiatives did help in increasing the investments in to the sector, some flaws remain to be ironed out.

The recharge

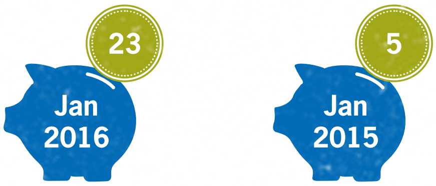
Touted as the biggest reform in the sector, since permitting 100 percent FDI under the automatic route in 2005, the Department of Industrial Policy and Promotion (DIPP), through Press Note 12/2015, has introduced landmark amendments to the Consolidated FDI Policy. Some of the significant amendments[1] are as under:

Scenario prior to the 12/2015 press note		Amended consolidated FDI policy
Provision	**Scenario**	**Amended provision**
Minimum floor area requirement of 20,000 square meters for construction development projects for FDI	Restricted the scope of FDI in real estate projects that comprised of large parcels of land, which are difficult to find in urban areas	This condition has been removed
Minimum capital requirement of US$ 5 mn which had to be provided within six months of commencement of a project in order for it to be eligible for FDI	Considering the lifecycle of the projects, demonstrating the requirement in the first six months of the project was seen as not practical.	This condition has been removed
Investment in completed projects for the operation and management of townships, malls, shopping complexes and business centres was permitted under the Consolidated FDI Policy	Ambiguity remained to whether leasing or earning rent on a property fell within the ambit of 'real estate business'. If it did, the investment would fall within a prohibited sector, thus rendering the proposed liberalisation ineffective	The definition of 'real estate business' has been amended and expressly excludes the earning of rent and leasing from its ambit
Foreign investors can exit only after completing the project or development of the trunk infrastructure	Restrictions on exiting from the projects	Each phase of the construction project will be considered a separate project for the purposes of the Consolidated FDI Policy; however, what will constitute a 'phase' for this purpose remains to be seen. Further, the transfer of stake from one foreign investor to another without repatriation of investment will not be subject to a lock-in period or government approval.

The hope

It is hoped that this shift will boost the affordable housing market, which has not yet benefited from FDI in any significant manner. While it remains to be seen whether they will bring about the constructive results needed, the month of January 2016 witnessed an increase in the inflow as compared to the same period in the previous year:

FDI in US$ Mns



Real Estate Investment Trusts (REITs)

The early days

In 2014, the Securities and Exchange Board of India (SEBI) notified the REITs regulations, thereby paving the way for introduction of an internationally acclaimed investment structure in India. The Ministry of Finance has also made necessary amendments to the Indian taxation regime to provide the tax pass through status, which is one of the key requirements for feasibility of REITs.

Uncertainty over proposed provisions

While the Indian REIT regime is aimed at providing a professionally managed ecosystem that is risk averse and focuses at protecting the interest of the public, it has also been plagued with several uncertainties such as applicability of MAT and foreign investments in the assets.

The first casualties

Real estate development firms and private equity (PE) funds, which were planning to set up REITs, had shelved their plans in fear that the MAT would make these investment vehicles unviable. First amongst them was the joint venture between PE firm Blackstone and real estate group Embassy who decided to shelve plans to list a US$ 2 bn REIT in India due to tax issues.

Government boosters

In a move intended to make REITs in India more investor-friendly, the government later announced that MAT[2] would be applicable on the REITs only when there is actual transfer of their units. Gains and losses arising from exchange of shares within the units of a business trust REIT was given exemption from the levy of MAT. This partial relief from MAT levy was followed by another boost when the Cabinet approved a proposal to enable foreign investment into these assets. The proposal recognises REITs as eligible financial instruments or structures under the Foreign Exchange Management Act (FEMA), 1999. Thus, entities registered and regulated under the SEBI (REITs) Regulations, 2014 will be able to access foreign investments. These entities were earlier barred under FEMA regulations.

Further, the central government is also considering scrapping stamp duty[3] on transfer of properties by private individuals and firms to REITs that are expected to get listed and making dividend distribution tax pass through for REITs and investors in the trusts.

The recent announcements around REITs - clarifying the applicability of MAT, foreign investments in the assets amongst others - was a step in right direction. Centre has provided the requisite tax code for an efficient REIT structure. Also, DDT was a major ask, which the Central Government has proposed to be removed to facilitate the listing of REITs. Depending upon the structure of holding assets, each Company will have to see whether stamp duty and capital gains become applicable or not, as these become applicable upon the sale of asset in to a REIT unlike in case of offer for sale of shares of the asset holding SPV into the REIT. Having said that, I believe that today, there is larger interest in the private market compared to capital markets given the volatility in the capital markets worldwide. In such conditions, no Investor will put money into an instrument like REIT at this stage. Once the volatility mitigates, there is significant amount of capital targeted for this asset class. Additionally, this class of investment gives a certain spread over 1 year G-Secs along with growth. Hence, domestic pension funds and insurance companies will be big allocators to such an investment along with FII's such as the Sovereign and Pension Funds

Saurabh Chawla

Senor Executive Director, DLF Limited

The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (LARR)

The background

Land acquisition in India is governed by the LARR that came into force from 1 January 2014. Till 2013, land acquisition in India was governed by Land Acquisition Act of 1894. As per LARR, the union or state governments can acquire lands for its own use, hold and control, including for public sector undertakings and for "public purpose".

The amendments[4]

On 31 December 2014, the President of India promulgated an ordinance with an official mandate to "meet the twin objectives of farmer welfare; along with expeditiously meeting the strategic and developmental needs of the country". The Land Acquisition Amendment Bill was then introduced in the Parliament to endorse the Ordinance. Some of the significant provisions of the Bill are:

Under the LARR	Under the Bill
Defines 'consent' clause as "land can only be acquired with approval of the 70% of the land owners for PPP projects and 80% for the private entities	Does away with consent clause for Industrial corridors, Public Private Partnership projects, Rural Infrastructure, Affordable housing and defence projects
Allowed any private 'companies' to acquire lands	Allows any private 'entities' to acquire lands
Land acquired which remained unutilised for five years, to be returned to the original owners or the land bank	The period after which unutilised land will need to be returned will be: i. five years, or ii. any period specified at the time of setting up the project, whichever is later
Mandated the social assessment before land acquisition	Does away with this requirement

The deadlock

While the Bill was passed in the Lok Sabha, it could not pass the test in the Rajya Sabha, where the current government does not have a majority, for the proposed amendments to become effective.

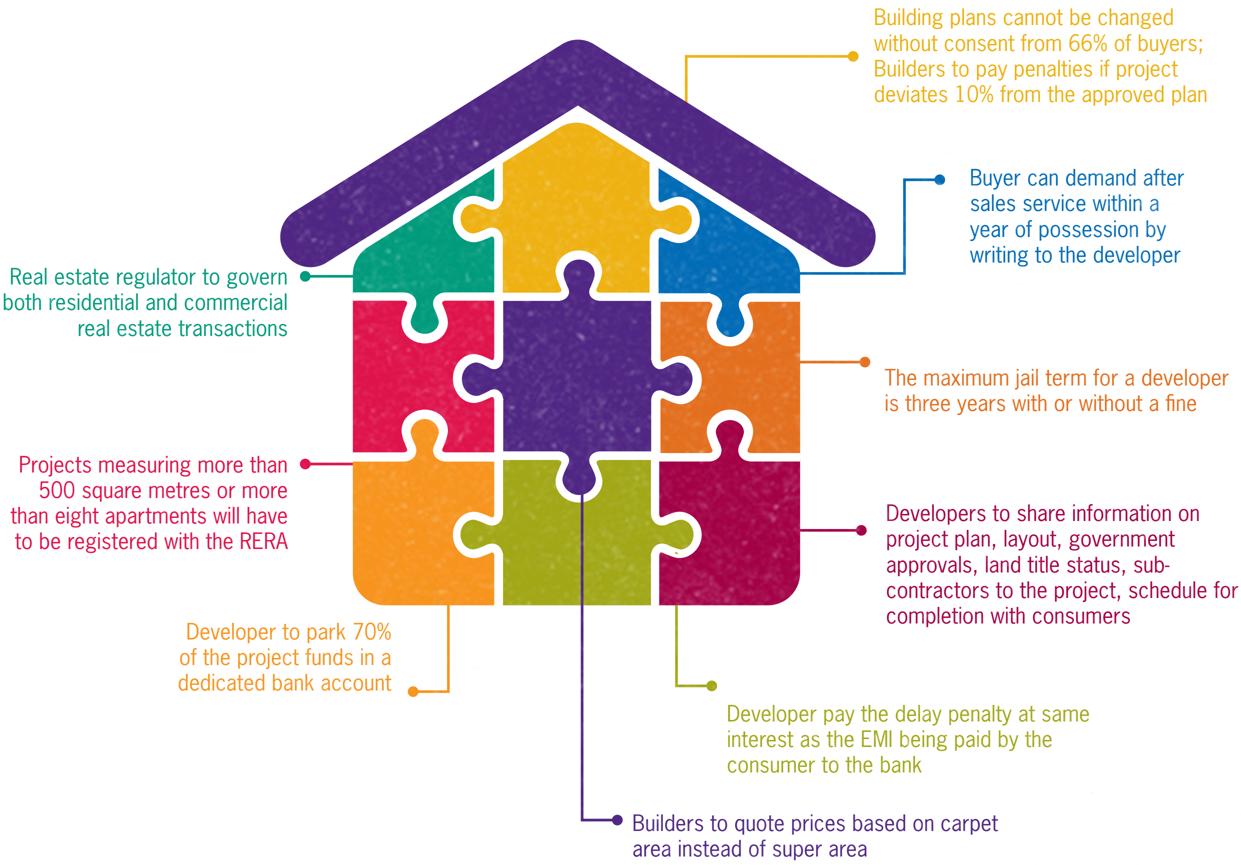
The way forward[5]

Also, a Joint Committee (JC) of Parliament was formed to examine the contentious Bill. The JC has been granted an extension till the end of the first part of the Budget Session to submit its report.

Since the Bill could not be passed, the ordinance was allowed to lapse in August 2015 and the land acquisition has been left to the state governments. Several state governments have framed their own policies to expedite acquisitions and bring in investments.

Real Estate (Regulation and Development) Bill

The Real Estate (Regulation and Development) Bill is likely to see the light of the day in coming months. The Bill finally got the nod of Rajya Sabha on 10 March. If the Bill is enacted and is notified as a law, it will create a level playing field for both the buyers and the developers. It also proposes to establish State Real Estate Regulatory Authorities for states. These will address the grievances against errant builders. However, this will happen once every state ratifies this Act and establishes a state authority on the lines of the law.



The Real Estate (Regulation and Development) Bill is an initiative to protect the interest of consumers, to promote fair play in real estate transactions and to ensure timely execution of projects. The proper implementation of the Bill will ensure accountability of all stakeholders, projects would be time bound, reduce delays in completion of projects and boost customer satisfaction. It is critical to have a more transparent mechanism for plan sanctions, better coordination between departments for faster clearances and clearer guidelines. The stamp duties and taxes, if increased gradually would also encourage investments. For improving the transparency levels, government authorities can make data available online, including the approval process as such initiatives will improve the perception of Indian Real Estate developers in the eyes of the international investors.

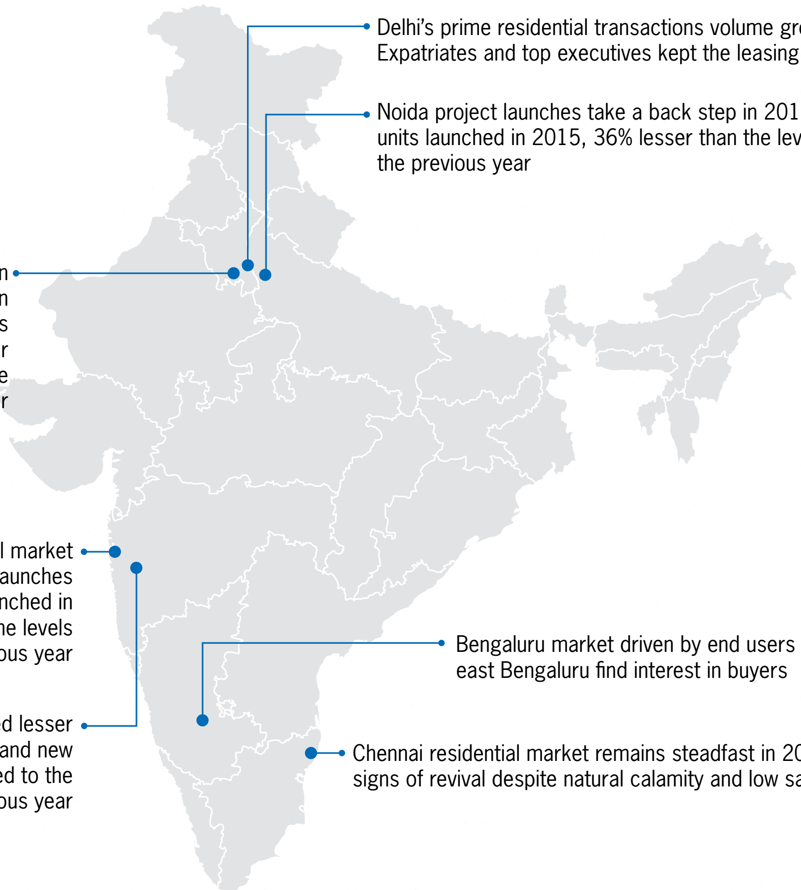
Ashish Purvankara

Managing Director, Purvankara Projects Limited

Key trends

Residential market[1]:

The year 2015 witnessed decrease in home loan interest rates coupled with various incentives being offered by developers. However, the transaction volumes in residential real estate continued to remain on the lower side across cities. Though select cities witnessed increase in enquires towards the end of the year; in general, the residential buyer was cautious. Primary reasons for this restraint are increasing delay in the existing under construction projects, quality issues and higher price points.



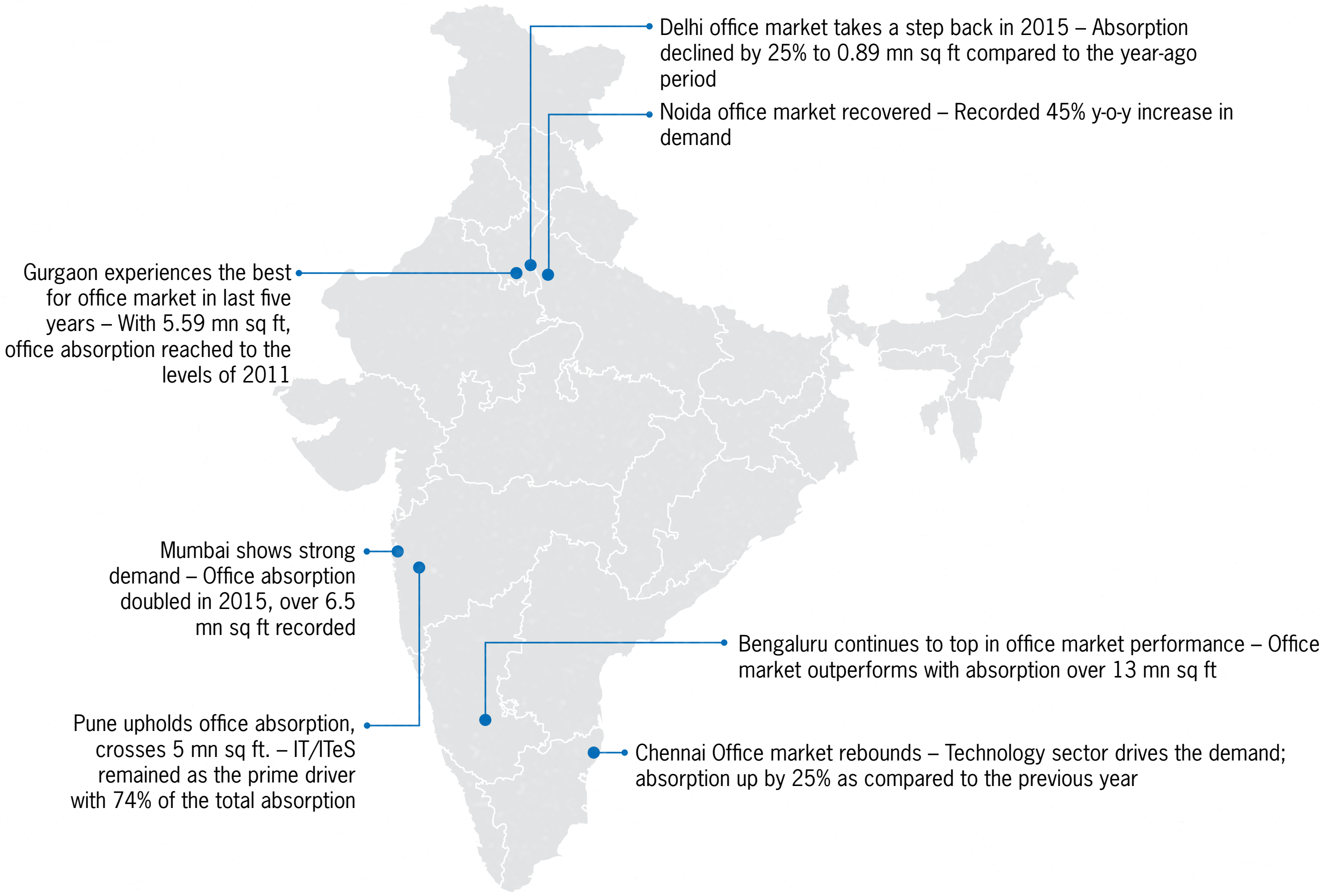
Movement in market indicators as compared to the previous year:

Particulars	Mumbai	Delhi	Gurgaon	Noida	Chennai	Bengaluru	Pune
Capital value	Increase	Decrease	Decrease	Decrease	Unchanged	Unchanged	Decrease
Rental value	Increase	Decrease	Decrease	Decrease	Decrease	Unchanged	Decrease
New projects	Increase	Decrease	Decrease	Decrease	Decrease	Unchanged	Increase
Completions	Unchanged	Decrease	Unchanged	Decrease	Increase	Unchanged	Unchanged

Increase
Unchanged
Decrease

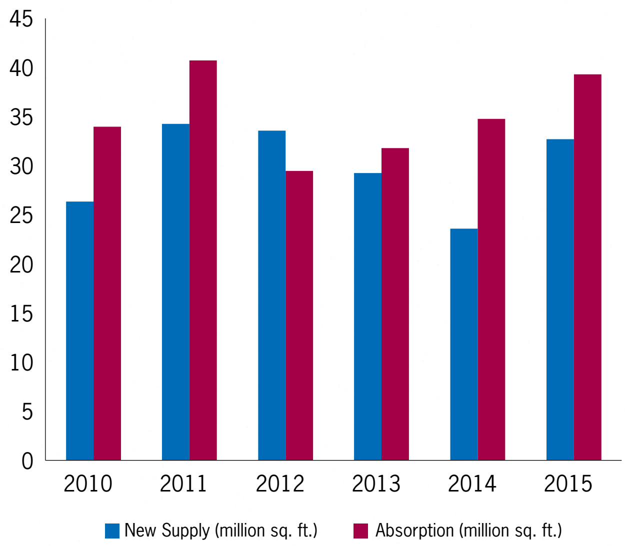
Commercial market[2]:

The year 2015 turned out to be a relatively good year for the Indian office market, with improvements in both demand and supply. The office market got its much needed support at macro economy level. The economy expanded to 7.40 percent in 2015 underpinned by low inflation, low interest rates and growth in investments. The ratio of absorption to new supply, one of the key metrics used to gauge the supply-demand equilibrium of the Commercial Real Estate (CRE) markets, indicates that office occupants absorbed more space than what was added to new supply. This indicates drop in vacancy rates.



Across the seven key markets, the sector witnessed supply of 33 mn sq. ft. whereas the absorption was at 39 mn sq. ft. This is an increase of 39 percent on the supply side and 13 percent on the absorption as compared to 2014. These are encouraging signs for this segment as 2014 had experienced a decline of 19 percent on the supply side and an increase of 9 percent on absorption as compared to 2013.

Supply and Absorption



Movement in the market indicators as compared to the previous year:

Particulars	Mumbai	Delhi	Gurgaon	Noida	Chennai	Bengaluru	Pune
Vacancy	↘	↗	↘	↗	↘	↘	↗
Absorption	↗	↘	↗	↗	↗	↘	↗
Construction	↗	↘	↗	↗	↗	↗	↗
Rental value	↗	↗	↗	↗	↗	↗	↘
Capital value	↗	↗	↗	↗	↗	↗	→

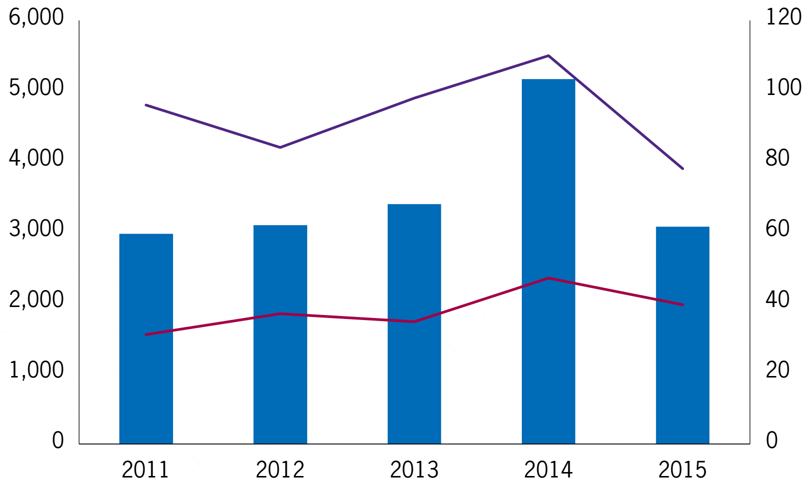
↗ Increase
→ Unchanged
↘ Decrease

Investment scenario[1]

Buys and ties

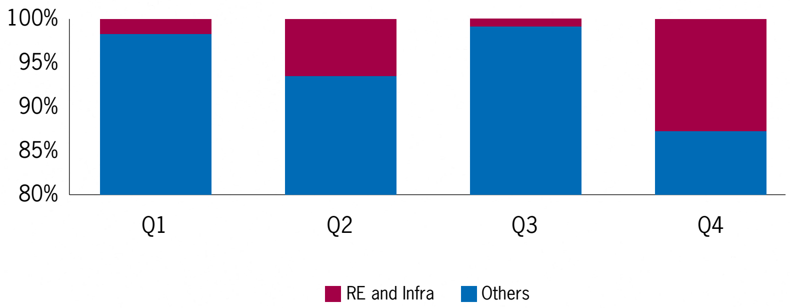
In 2015, the sector witnessed a decline in the merger and acquisitions (M&A) and PE deals as compared to 2014 – from 110 deals aggregating US$ 5,169 mn in 2014 to 78 deals aggregating US$ 3,078 mn. Average deal value too fell from US$ 47 mn in 2014 to US$ 39 mn in 2015. This was primarily due to big-ticket deals in previous year which drove the average deal size to a five-year high.

M&A + PE (Volume versus Value)



	2011	2012	2013	2014	2015
Value (US $ Mn)	2,977	3,099	3,397	5,169	3,078
Volume (numbers)	96	84	98	110	78
Average (US $ Mn)	31	37	35	47	39

Merger and acquisitions in 2015

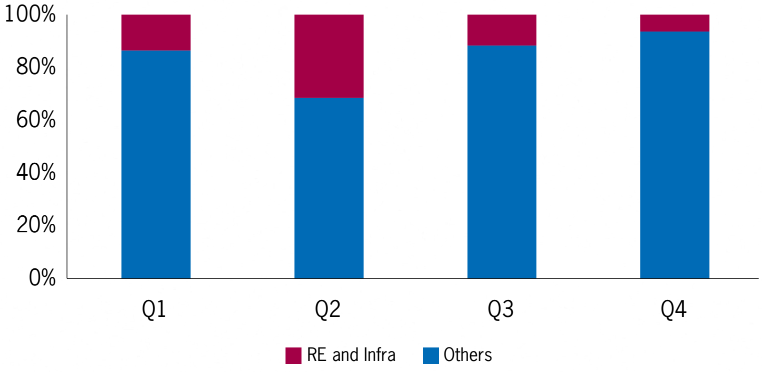


Top deals in 2015

Real estate				
Buyer	**Seller**	**US$ Mn**	**Deal Type**	**% Stake**
Carnival Group	Larsen & Toubro Ltd	267.00	Acquisition	100%
Abbott India Ltd	Godrej Properties Ltd	225.40	Acquisition	100%
SPREP Pte Ltd	Faery Estates Pvt Ltd	220.00	Acquisition	100%
Blackstone Group Lp	HCC Ltd.	165.70	Minority Stake	26%
Evie Real Estate Pvt. Ltd	Crompton Greaves Ltd	77.58	Acquisition	100%

Infrastructure				
Buyer	**Seller**	**US$ Mn**	**Deal Type**	**% Stake**
E2 Energy Services Private Limited	N.A.	132.81	Acquisition	100%
GMR Infrastructure Ltd- GMR Airport Ltd	Malaysia Airports Holdings Berhad	80.00	Increasing stake to 64%	10%
Cube Highways and Infrastructure Pte Ltd	Madhucon Infra Ltd	38.75	Acquisition	100%
Sadbhav Group	HCC Concessions	32.70	Majority Stake	60%
EMC Ltd	BM Khaitan group	15.70	Increasing stake to 29.64%	20%

IPO and QIP in 2015

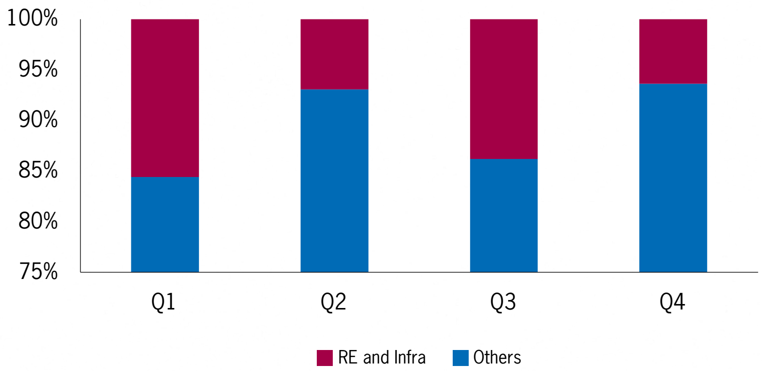


Top transactions in 2015

Real estate	
Company Name	**Capital Raised (In US$ Mn)**
The Phoenix Mills Limited	45.6
Ashiana Housing Limited	33.3
Poddar Developers Limited	20.8
Pennar Engineered Building Systems Ltd	17.5

Infrastructure	
Company Name	**Capital Raised (In US$ Mn)**
Ashoka Buildcon Limited	80.6
PNC Infratech Ltd	78.8
IRB Infrastructure Developers Limited	71.0
Navkar Corporation Limited	69.2
Hindustan Construction Company Limited	64.5

PE deals in 2015



Top deals in 2015

Real estate			
Investor	**Investee**	**Investment Value in US$ mn**	**% Stake**
Warburg Pincus	Piramal Realty	283.60	N.A.
Goldman Sachs	Piramal Realty	150.00	N.A.
Equis Funds Group	Assetz Property	116.00	N.A.
Piramal Fund Management	Ozone Group - Urbana project	92.74	N.A.
GIC	Nirlon Ltd	90.00	30%

Infrastructure			
Investor	**Investee**	**Investment Value in US$ mn**	**% Stake**
India Infrastructure Fund	Dewas Bhopal Corridor Pvt Ltd	100.00	37%
BIF Holdings Pte Ltd	Gammon Infrastructure Projects Ltd (GIPL)- nine road and power projects	87.97	100%
Tata Opportunities Fund	Tata Projects Ltd	55.00	N.A.

In a nutshell

The volume of deals in 2015 was the lowest in the last five years; value-wise it was only marginally higher than the 2011 levels. With further relaxation to the FDI norms, one can only expect heightened interest in the sector leading to more deals and higher average deal values. It can be a much needed relief to the liquidity-starved sector.

Creating smart urban landscape

Smart cities

What is a Smart City?

A 'smart city' can be described as an urban region that is highly advanced in terms of overall infrastructure, sustainable real estate, communications and market viability. It is a city where information technology is the principal and core infrastructure and forms the basis for providing essential services to residents. In a smart city, economic development and activity is sustainable and rationally incremental by virtue of being based on success-oriented market drivers such as supply and demand. They benefit everybody, including citizens, businesses, the government and the environment.

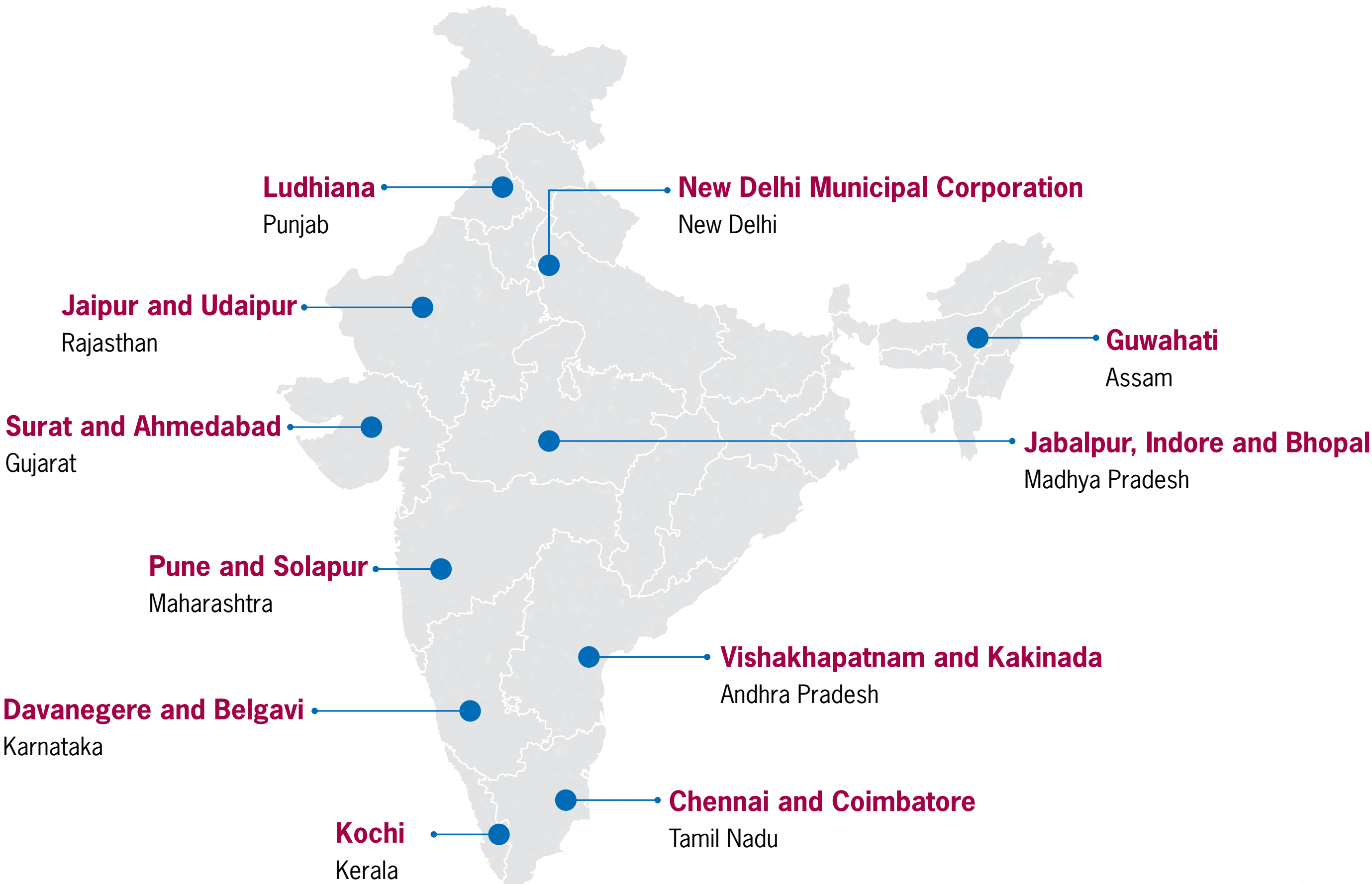
Currently, Indian cities face significant challenge with regards to increasing population, environment and regulatory requirements, declining tax bases and budget and burden on the existing civic infrastructure. To address these challenges, the government has launched the Smart Cities programme in India.

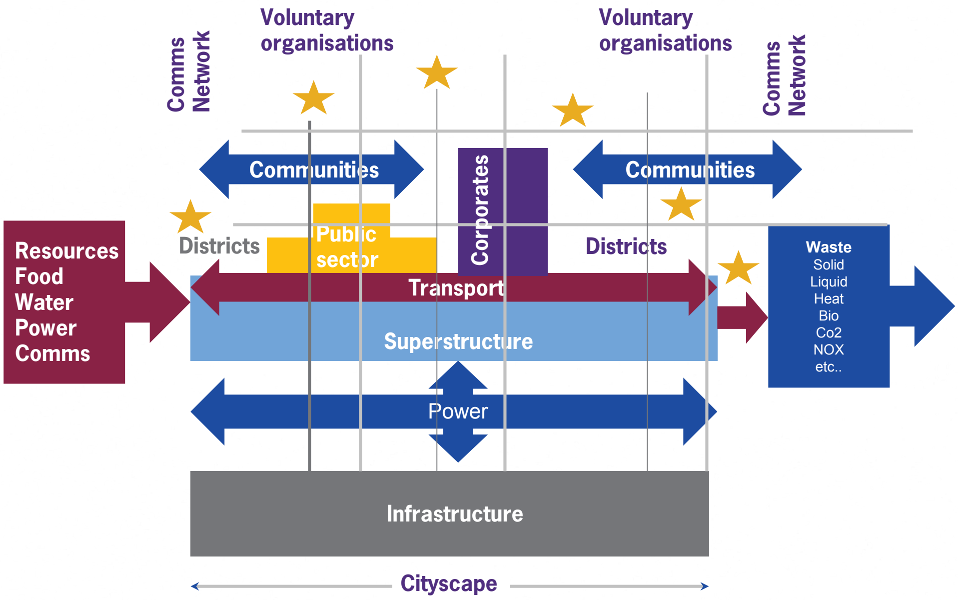
What has the government done to promote this idea?

Recognising this high pace of urbanisation and movement of its citizens from smaller towns and villages to cities, Government of India has set aside INR 7,600 crore (US$ 1.24 bn) for the creation of 100 smart cities.

A challenge was thrown up for all state governments to compete among themselves to have their cities among the 100 to be developed as smart cities. After the states nominated their cities, a Central expert panel made the final selection of the 100 cities based on criteria such as the cities' size, population, infrastructure level and upgrade potential.

The Ministry of Urban Development (MoUD)[1] recently selected 20 cities in the first phase to develop as smart cities. The MoUD will select the remaining 80 cities in phased manner. Bhubaneswar (State of Odisha) has topped the list of first 20 cities that will be developed as smart cities. Other cities which made the cut are:





Collaboration among the city authorities, other public sector bodies and real estate companies to deliver an **agenda focused on the city** itself will be the key

Have corporates shown interest in this initiative?

The Smart Cities Scheme is expected to provide a major boost to investments and employment in the sector. Corporates have realised the potential of the scheme. It presents an opportunity for corporates to be a part countries urban and infrastructural growth.

Some of the initiatives taken up by corporates

Corporates	Scope of proposed work
CISCO[2]	• networking infrastructure • smart street lighting • traffic management • CCTV security surveillance • water management
NEC Corporation[3]	• information technology
ZTEsoft[4]	• upgrading the existing cities in Gujarat
Huawei[5]	• information and communications technology infrastructure
Siemens[6]	• integrated solutions
Avaya[7]	• infrastructural support • integrated solutions

Some companies such as L&T[8] and Ericsson[9] India have set up new divisions to focus on the smart cities business.

Countries that have shown interest to invest in this initiative

Countries	Cities they are interested in	Scope of proposed work
Japan[10]	Kakinada in the state of Andhra Pradesh	assisting in revamping the city's: waste management • tourism • enhancing infrastructure • civic amenities • reducing pollution • setting up of an electronics and hardware park.
France[11,12]	Chandigarh, Pondicherry and Nagpur	Investment of US$ 2.3 bn (approx. Euro 2 bn) • sustainable urban development, • skill development, • science and technology, • upgradation of railway tracks
South Korea[13]	New Chandigarh, Ludhiana and Amritsar	• Technology • Finance • LED lighting • safe city solutions
US[14]	Allahabad	• Agriculture, • agro-processing, • solid waste management • infrastructure development.
China[15]	Gujarat	Invest US$ 200 mn in ZTESoft's smart city project for Gujarat.
The US-India Business Council (USIBC)[16]	Visakhapatnam in the state of Andhra Pradesh	Healthcare sector

Next steps

States whose cities could not make it to top 20 list in the Smart City programme will be provided an opportunity to participate in a 'fast-track competition' and resubmit their proposals by 15 April 2016[17].

For long, growth story of the country in general and urban planning in particular has been mired in corruption and incompetence. If the 20 cities selected in the first phase can show quick results, it could help set off a domino effect. The country is not only desperate for success stories and role models but also for governmental interventions that help in collectively raising the bar; not in 20 or 100 cities, but across the 8,000-odd towns in the country.

Housing for all

What is Housing for all?

Housing for all is the flagship project of the current government which intends to provide affordable homes to urban poor and slum dwellers at low interest rates.

The government has identified 305 cities and towns across nine states for implementation of the Housing for all scheme.

What support has the central government proposed under the Scheme?[1,2]

Slum rehabilitation:

Central grant of INR 100,000 per house, on an average, will be available under the slum rehabilitation programme. The State Government under this proposal shall have the flexibility to deploy this grant to any slum rehabilitation project taken for development, using land as a resource for providing houses to slum dwellers.

Credit linked interest subsidy:

Interest subsidy of 6.5 percent on housing loans availed up to the tenure of 15 years will be provided to Economically Weaker Section (EWS)/Lower Income Group (LIG) categories, wherein the subsidy pay-out on the net present value would be basis INR 230,000 per house, for both the categories.

Partnership and beneficiary-led:

Central assistance at the rate of INR 150,000 per house for EWS category will be provided in partnership and beneficiary-led individual house construction or enhancement. State government or their parastatals such as Housing Boards can take up projects of affordable housing to avail the central government grant.

The Ministry of Housing and Urban Poverty Alleviation (HUPA) would provide assistance of over INR 2 lakh crore to a population of over two crore urban poor, over the course of next six years, to help enable them to own a home of their own.

Also, the Finance Ministry has advised banks to lend at least six times more towards the housing loan, up to INR 25 lakh.

The central government has proposed to decentralise the Housing for all scheme by empowering every state government to participate in the planning and decision making process.

State governments too have shown interest in this initiative

State	Initiatives
Maharashtra	To promote the affordable housing, the state government has decided to give incentives to the developers for constructing small and affordable sizes houses for citizens.[3]
	Incentives for the buyers by proposing a reduction in stamp duty on residential properties spread over less than 750 sq. ft. for the EWS, LIGs and Middle Income Groups (MIGs).[4]
	The Government has proposed a Public Housing Fund - a scheme in which people can contribute a small part of their monthly income for a tenure similar to an insurance policy or a public provident fund, in order to make houses more affordable in Mumbai and other cities.[5]
	New Housing Policy aims to build 1.1 mn houses in the Mumbai Metropolitan Region and another 800,000 across the rest of the state by the year 2022.[6]
Gujarat	The state government plans to announce a 'redevelopment policy' to initiate building of affordable houses in place of old colonies. The plan is to build around 1 lakh affordable houses in the next five years.[7]
Haryana	The state government has approved INR 882.50 crore for construction of 11,259 houses for the EWS. Of this, an amount of INR 181.38 crores has already been spent on construction of 411 EWS flats up to 31 May 2015.[8]
Rajasthan	The Rajasthan Government has signed four memorandums of understanding, firming up an investment of INR 5,400 crore to promote affordable housing in the state. The memorandums are a part of the 27 MoUs signed by the state entailing an investment of INR 12,478 crore in housing and urban development projects.[9]

What has been the level of interest from other governmental agencies?

Mentioned below are some of the initiatives taken by the agencies.

State	Initiatives
Maharashtra Housing and Development Authority (MHADA)	The Nagpur division of MHADA is drawing up plans to create a large bank of around 20,000 affordable houses for the lower and middle income groups in the next five years. Of these 1,500 to 2,000 houses are to come up in shorter span of time in the city and its fringes on pieces of land that it got from the state government.[10]
Mumbai Port Trust	Union Shipping Minister promised to hand over 350 acres of land owned by the Mumbai Port. Trust to the state government for affordable housing project.[11]
Ghaziabad Development Authority (GDA)	GDA in a joint venture with Nagar Nigam Ghaziabad (NNG) is planning to construct 1,000 affordable LIG and MIG homes in the city on encroached government land. This will release a huge part of the land, from the clutches of mafia.[12]
National Housing Board (NHB)	NHB, a wholly-owned subsidiary of the RBI has joined hands with 131 institutions to promote the credit-linked subsidy for home finance.[13]
Ministry of finance	Keeping in mind Housing for all by 2022 the Finance Ministry has advised banks to lend at least six times more towards housing loan up to INR 25 lakh during the current fiscal year.[14]

Have corporates shown interest in this initiative?

Quite a few, to name them,

State	Initiatives
International Finance Corporation (IFC)	IFC, a member of the World Bank Group, will invest (US$ 25 mn) INR 160 crore alongside Tata Value Homes (TVH), a subsidiary of Tata Housing, to finance affordable housing projects for low-income households across India. It will provide TVH long-term capital to develop about 16,800 homes over the next 10 years.[15]
Tata Housing	Realty firm Tata Housing will invest about INR 600 crore to develop a new residential project at Bahadurgarh, Haryana.[16]
HDFC	Some of the bulge-bracket global investors are betting on India's affordable housing story with the country's leading mortgage lender HDFC rolling out its US$ 1 bn offshore fund to finance such projects. The world's second largest sovereign wealth fund the Abu Dhabi Investment Authority (ADIA), is one of the investors, according to two people close to the development. Two European pension fund pools have also committed investments. The fund, according to a senior banker, has already completed its "first close" of US$ 500 mn pooling a large share of it from the Gulf-based sovereign wealth fund.[17]

Concluding remarks:

As rightly stated by the government of India, housing is a basic right of every citizen and making it affordable is a 'mission' which currently is far-sighted. However, several interested parties have to stitch together a structure whereby it is affordable to the buyer, workable for the corporates and bearable to the exchequer.

Navigating around roadblocks

Challenges

According to the data shared by the Ministry of Statistics and Programme Implementation (Ministry), four out of every ten central government infrastructure projects are running behind schedule or have overshot original cost estimates. This provides an evidence of the heavy toll taken on project execution by delayed regulatory approvals, financial constraints and stalled land acquisition. The cost of one of these projects is expected to increase 20 times and another is set to miss its original completion date by 21 years. According to the Ministry, which tracks the progress of public works projects that cost INR 100 crore and above, it was monitoring 738 projects. Out of these, 315 had run past their implementation date, leading to cost escalation.

No. of delayed projects across sectors[1]

Sector	No. of delayed projects
Coal	35
Petroleum	43
Power	63
Railways	35
Road transport and highways	98
Steel	17
Urban Development	13
Others	11

Solving the construction challenges

The government, from time to time, comes up with initiatives to solve these issues plaguing the infrastructure projects. In 2015, some of the notable initiatives of the government have been to allow easier exit to private players from the Build-Operate-Transfer (BOT) projects, a shift from BOT to Engineering Procurement Construction (EPC) contracts for National Highway Authority of India (NHAI) projects and amendments to the Arbitration Laws.

Easy exits from BOT projects

Recent announcements

The Cabinet Committee on Economic Affairs approved a comprehensive exit policy framework that allowed developers to divest 100 percent equity two years after completion of construction.

The impact

This decision will help unlock equity from completed BOT projects, making it potentially available for investment in all infrastructure projects, and not highway projects alone.

- Highway developers can now use the divested equity proceeds in non-NHAI projects or in power projects.
- The proceeds can also be used to reduce existing corporate debt to financial institutions in any other infrastructure projects.

This will result in physical completion of languishing infrastructure projects and expedite award and implementation of highway projects by making additional funds available for investment. As of May 2015, 80 pre-2009 BOT projects were completed. The equity locked up in these projects worked out to around INR 4,500 crore.

In a nutshell, this decision is expected to pave the way for more domestic and foreign funds to come into the road sector.[2,3]

Shifting from the BOT to the EPC model

A new contract method holds the key to renewed attempts by the government in drawing private players back to the highways sector. After finding it difficult to award highway sections to private developers, the government shifted from the BOT model to the government-funded EPC model and introduced the new method — the hybrid annuity model — for projects granted from 01 October 2015. Under the new model, the NHAI will provide an initial grant up to 40 percent of the cost and the developer has to chip in with the rest and complete the project.[4]

According to a recent report by research agency CRISIL, under-construction projects require equity and cost-overrun support of around INR 28,500 crore over the next two years. Of this, about INR 16,000 crore could be stumped up from internal accrual of sponsors and sale of stake at the special purpose vehicle level. That leaves a significant shortfall of INR 12,500 crore. A silver line in this story is the recognition within the government that it may have to contribute towards the languishing projects – the acceptance of the fact that the government has not met its side of the bargain. This in turn will put tremendous pressure on the exchequer; add to it the pressures of shifting from BOT to EPC. A parliamentary panel review report in December flagged that NHAI was able to spend only INR 6,208 crore out of INR 23,692 crore, or about 26 percent, allocated during 2014-15 at the Revised Estimate stage (in the budget for 2015-16).[5]

Arbitrations – Making them time bound

The last decade saw an unprecedented growth in the construction and infrastructure sectors in the country. One of the inherent features of this sector is the 'litigations'; a prolonged litigation only adds to the woes of the firms already struggling with liquidity. Construction and infrastructure firms across the country have reported thousands of crores of claims pending under litigations at various levels.

The Arbitration and Conciliation Act (Amendment) Bill, 2015:

The amendments were proposed and approved by both the houses of the Parliament paving the way for speedy settlement of disputes and minimalising the intervention of the courts.

Following are some of the significant amendments proposed in the bill:

- Provision for time bound arbitrations: The arbitration tribunal is obligated to deliver the final award within a period of twelve months. This period can be extended by the consent of parties for an additional six months. Any further extensions will require court consent. The courts on being approached for an extension are empowered to reduce the fee payable to an arbitrator by up to 5 percent for each month of delay and can also substitute one or all the arbitrators.
- Provision for fast track settlement: The amendments require the tribunal to make its award within a period of six months. To incentivise quick adjudication, in cases where the tribunal decides a matter within a period of 6 months the Ordinance provides for an additional fee payable to the tribunal by the consent of the parties.
- Provision for disposal by the courts: Lastly, the amendments require a challenge to the award be disposed off by the courts within a period of one year.

The law will not have any bearing on ongoing arbitration cases and will apply to such cases only if the two parties agree.

The impact:

The amendments are very encouraging as it defines a time frame within which the dispute is to be settled. This will go a long way in ensuring a better environment for the firms to operate in and unlock the potential liquidity stuck in these litigations.[5]

News round-up

COMPAT quashes CCI's INR 6,316.59 crore penalty on cement firms

In a major verdict, the Competition Appellate Tribunal on Friday set aside INR 6,316.59 crore penalty imposed on 11 cement firms by CCI on cartelisation charges and asked the fair trade regulator to hear the matter afresh. The Tribunal also allowed the cement manufacturers to withdraw the 10 percent penalty amount already deposited with the CCI (Competition Commission of India), which has been asked to pass a fresh order within three months. The judgment follows appeals filed by the cement firms and their industry body Cement Manufacturers Association against the two CCI orders passed in June-July 2012, wherein the regulator has imposed a cumulative penalty of INR 6,316.59 crore on cartelisation charges.[1]

Godrej Properties sells 300 flats in one week for INR 700 crore in Mumbai

Realty firm Godrej Properties has sold 300 flats worth over INR 700 crore in just one week in its project 'Trees' at Vikhroli, Mumbai, even as the housing segment is facing huge demand slowdown.[2]

AMRUT action plans for 81 cities approved with total project outlay of INR 5,748 crore

81 cities in Tamil Nadu, Madhya Pradesh, Jharkhand, Odisha and Mizoram will invest INR 5,748 crore to enhance basic infrastructure including water supply and sewerage connections under AMRUT action plans for the year 2015-16. Central assistance will be provided to an extent of INR 2,440 crore while the rest would be contributed by state governments and urban local bodies.[3]

Centre all set to launch its own realty portal

The government is set to launch one of its own, initially with about 50,000 residential properties that you can bid for online. These are properties that debt recovery tribunals have allowed banks to sell through auction after their owners defaulted on loan repayment. The government portal, which is yet to go live, will provide details such as the pictures and floor area of the properties and allow anyone to bid directly after electronically making the earnest money deposit.[4]

Land law: Government issues order to include 13 central Acts

The government has decided not to reissue the land ordinance again and has instead issued an executive order retaining only one of the provisions contained in the law dropping the eight remaining ones. The order extends benefits of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 to 13 acts so far not eligible for high compensation and rehabilitation under this law. The 13 Acts include Land Acquisition (Mines) Act, 1885, the Metro Railways (Construction of Works) Act, 1978, and the National Highways Act, 1956.[5]

RBI reduces REPO rate by 50 basis points to 6.75 percent

On the basis of an assessment of the current and evolving macroeconomic situation, it has been decided to:

- reduce the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points from 7.25 percent to 6.75 percent with immediate effect;
- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0% of net demand and time liability (NDTL);
- continue to provide liquidity under overnight repos at 0.25 percent of bank-wise Net Demand and Time Liability (NDTL) at the Liquidity Adjustment Facility (LAF) repo rate and liquidity under 14-day term repos as well as longer term repos of up to 0.75 percent of NDTL of the banking system through auctions; and
- continue with daily variable rate repos and reverse repos to smooth liquidity.

Consequently, the reverse repo rate under the LAF stands adjusted to 5.75 percent, and the marginal standing facility (MSF) rate and the Bank Rate to 7.75 percent.[6]

Record deal for Mumbai penthouse - INR 202 crore

Records don't stand long in Mumbai's real-estate market. The latest to set a new mark is a sea-facing triplex penthouse in South Mumbai's Napean Sea Road locality which has been sold for INR 202 crore; the biggest ever deal for a residential apartment in the country. A prominent industrialist is buying the luxury pad with 17,000 sq. ft. of carpet area spread over the 20th, 21st and 22nd floors of the 22 floor project, The Residence, being built by the Runwal Group.[7]

Construction labourers to get medical benefits under Employee State Insurance scheme

The Employee State Insurance Corporation (ESIC) has approved extending benefits of the ESI scheme to workers deployed on construction sites from 01 August 2015. The decision is seen as a big step by the BJP government to extend social security coverage to a large chunk of unorganised workers.[8]

Property registration to be made online in Delhi

In an attempt to make doing business easier, Delhi may soon become the first State to start an online facility for property registration, rent agreement and power of attorney. The Revenue Department of the government has started a trial run of the software and within two or three months, the project will be launched. According to the department, at present, there is no online property registration facility in India and Delhi will be the first State to launch the project.[9]

World Bank approves US$ 650 mn loan for Eastern Freight Corridor

Providing a significant boost to the plans of developing the Eastern Dedicated Freight Corridor (EDFC), the World Bank has approved US$ 650 mn towards loans for the EDFC to facilitate faster and more efficient movement of goods between northern and eastern parts of India. The Eastern Corridor is planned to be 1,840 kilometres long. Further, it will extend from Ludhiana to Kolkata.[10]

Pension Fund Regulator allows funds to invest in realty sector

The funds-starved real estate sector got a boost from the pension regulator, which has opened the doors to the inflow of long-term retirement funds in the real estate sector, allowing the pension funds to invest up to 5 percent of their corpus in regulated real estate investment trusts. A few thousand crore of the National Pension System (NPS) scheme could be invested in the funds-starved real estate sector after the Pension Fund Regulatory and Development Authority (PFRDA) issued the new investment rules earlier this week.[11]

6.5 percent interest subsidy on housing loans for poor

In a bid to make the politically ambitious 'housing-for- all by 2022' project attractive and affordable, the Centre has decided to offer a clutch of incentives, including 6.5 percent interest subsidy on housing loans to encourage economically weaker families and low income individuals to build their own houses. Accepting recommendations of a high-powered inter-ministerial panel, the government has decided to provide credit-linked subsidy and outright grant to ease the burden on urban poor families willing to build their own houses.[12]

Budget 2016

Budget 2016 presents a balancing act for the Real Estate and Construction sector; while some of the long pending demands on giving the industry status to the real estate sector, providing single window clearance, etc. are yet to be fulfilled, there has been an attempt by the Government to create demand for real estate by raising the exemption limits for the first time home buyers with an overall ceiling of loan/ price of property and at the same time, introducing various tax sops/ exemptions in terms of income tax and service tax to affordable housing segment for generating supply. Real Estate Investment Trusts (REITs) finally get complete exemption from the dividend distribution tax (DDT), this will help companies with quality commercial real estate to monetize these assets. The focus on infrastructure is kept intact through enhanced budget on road, railway connectivity; these will act as enablers for the real estate sector in the long run. Lastly, announcement of digitization of land records is a move in the right direction to enhance the transparency and easy accessibility of the land records.

Key takeaways from the budget

Policy initiatives

Outlays on infrastructure

Capital expenditure of the railways and roads will be INR 218,000 crore in FY 2016-17

Total outlay for infrastructure is INR 221,246 crore

Central Government to draw a plan to revive 160 unserved or underserved airports to enhance local connectivity

An initiative has been made to transition into a new credit rating system for infrastructure projects which will enable correct risk analysis of the projects, resulting in efficient loan funding.

Digitisation of land records

This initiative would now be part of the Central Government project with a fund allocation of INR 150 crore.

Shop and establishment act

Shops outside the malls would also get an opportunity to choose to operate all seven days of the week. A model shop and establishment act to be circulated by the Central Government, which can be voluntarily adopted by the States. The law would have safe guards to protect the interest of the workers in terms of mandatory weekly holiday, number of working hours per day, etc.

Direct tax proposals

REIT /InvitsSPVs exempted from Dividend Distribution Tax

The Real Estate Investment Trust (REIT) or Infrastructure Investment Trust (Invit), in accordance with the Securities and Exchange Board of India (SEBI) Regulations are permitted to hold assets directly or through an SPV which can take form of a company or LLP. The amendment brings parity between the dividend income vis-à-vis interest or rental income from the SPV being a company, wherein the REIT/ Invit holds specified shareholding and fulfilling other conditions, by doing away with the DDT on distributions of dividend by SPVs.

Affordable Housing

Section 80-IBA proposes to provide 100% deduction of profits to an undertaking from a housing project comprising of units upto30 sq. metresin four metro cities and 60 sq. metresin other cities. Approved for the project to be procured during June 2016 to March 2019, and project to be completed within three years of the approval. The deduction is subject to various other conditions. Minimum Alternate Tax will, however, apply to these undertakings.

Indirect tax proposals

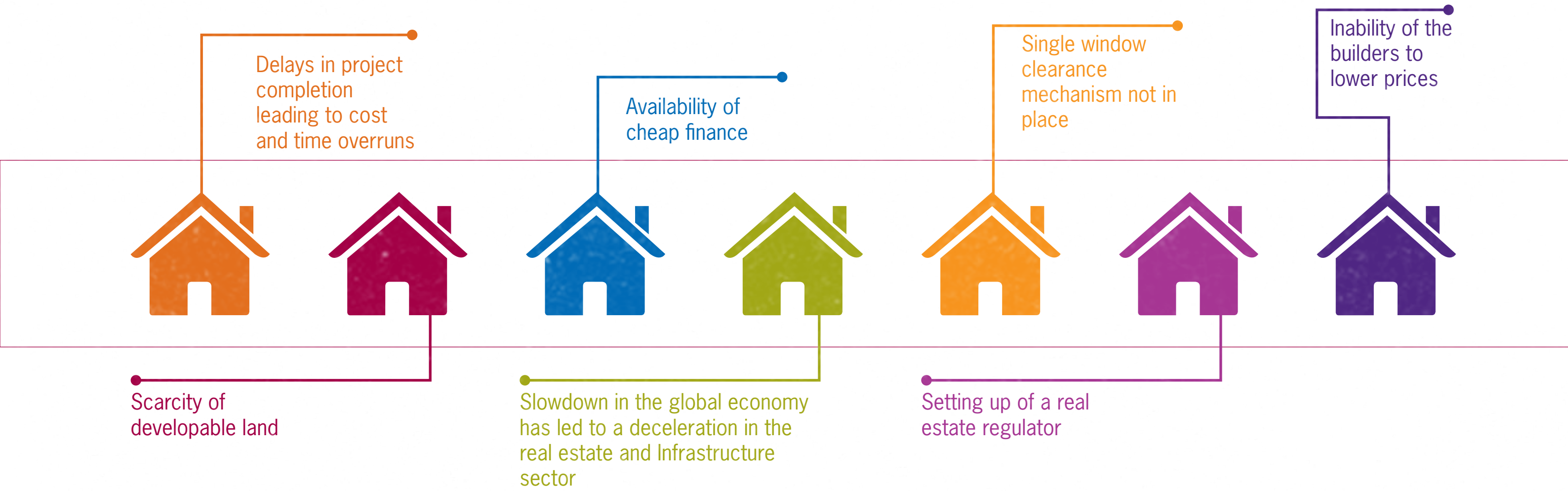
Services provided by way of construction of original works

Services provided by way of construction of original works pertaining to canal, dam or other irrigation works has been exempted w.e.f. 1 July 2012

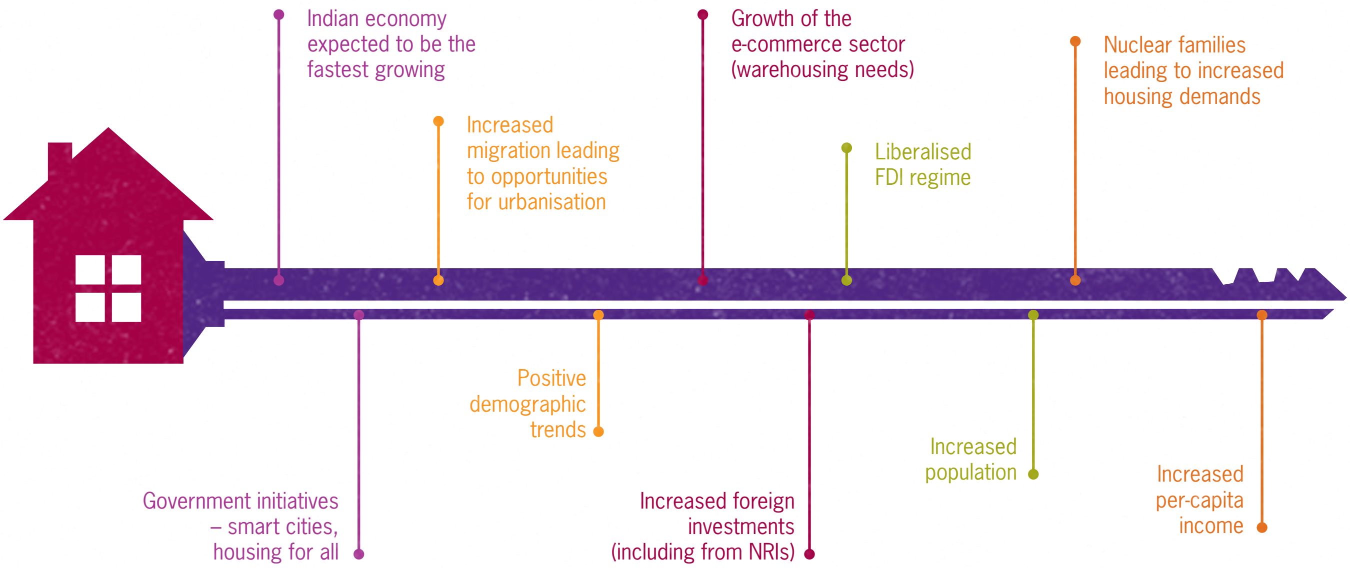
Refund of such service tax paid is allowed as refund in certain cases and has to be filed within 6 months from the date on which the Finance Bill, 2016 is enacted

The road ahead

Key challenges



Growth drivers



While the challenges remain an inherent part of the sector and probably will take some more time to get completely phased out, government initiatives and the overall economic health of the country do present the sector with some exciting growth drivers, which takes Real estate & Infrastructure into a sweet spot in the overall economic development of India.

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