Realty Bytes

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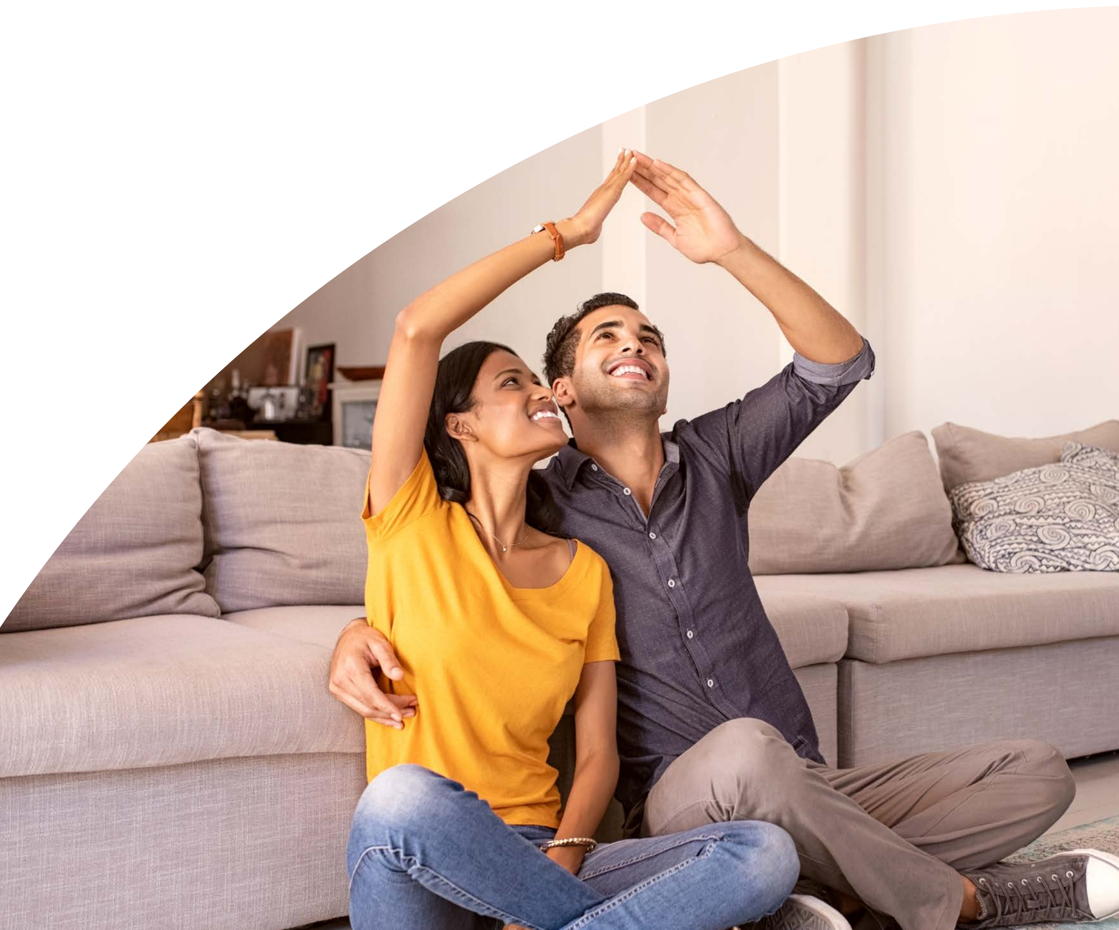

Contents

Foreword

Post the first wave of COVID-19, the real estate sector witnessed an unprecedented recovery led by a significant increase in sales of residential spaces across the country.

The second wave of COVID-19, which has been extremely severe, has taken people and the establishment by surprise. Although the real estate sector was profoundly impacted during the COVID-19 outbreak, the nature of challenges in the first wave was different. As a result of the strict nationwide lockdown, construction activities were brought to a standstill, leading to mass exodus of labour migrants.

Post the first wave of COVID-19, the sector witnessed an unprecedented recovery led by a significant increase in sales of residential spaces across the country.

Despite being better prepared, the impact of second wave of the pandemic has left everyone on the edge. In the days to come, the sector is expected to witness a paradigm shift.

Our global research of mid-market businesses, Global Business Pulse, also shows that economic optimism in India is up by 3 percentage points (pp) in H1 2021 compared with H2 2020, with 74% of businesses now optimistic about the economy.

In this edition of our publication, we throw light on the future of the real estate sector across asset classes.

Alok Saraf
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Key things defining future of real estate in India

India has emerged as the preferred destination for setting up global, in-house research and development centres for global firms. Lower operating cost, availability of abundant talent and business-favourable policies have contributed to this massive growth and the resulting boost to the commercial real estate sector.

The real estate sector has leapfrogged in numerous ways. Due to the various measures taken by the government over the years, such as setting up of significant reforms including Special Window for Affordable & Mid-Income Housing (SWAMIH) fund, the Real Estate (Regulation and Development) Act (RERA) and the goods and services tax (GST), liquidity in the banking system and buyers' confidence in the housing sector has been restored.

In residential housing, we are witnessing a shift in buyers' preferences, such as the need for more space and greater focus on amenities. RERA measures have essentially brought transparency and accountability in the sector. This had earlier been afflicted by poor accountability and transparency issues pan-India. India has become a preferred real estate destination for investing in, particularly for non-resident Indians (NRIs).

According to PropEquity, a real estate data analytics firm, Bengaluru, Chennai, Hyderabad, MMR, NCR and Pune are the cities where home sales witnessed growth in Q1 2021 versus Q1 2020 at 13%, 29%, 16%, 26% and 6%, respectively. Only Kolkata witnessed a fall of 20% in home sales during the same period. However, the new supply of housing units decreased by 40% in the same period to 59,737 units from Q1 2020 at 1,00,343 units.

Till a couple of years ago, millennials were not rushing to buy homes due to their on-the-move lifestyles. The pandemic pushed people indoors for inordinately long periods, resulting in a growing preference for spacious homes that cater to the varied needs of their families, including that of home office.

Fractional investment

Fractional investment, a recent trend that has gained acceptance in the real estate sector, is a new, safe and feasible way to pocket-friendly investment in office real estate. Several investors pool in their money to buy Grade A office property. The assets are vetted legally and rigorous statutory and regulatory clearance checks are done before offering them to such individual investors for ownership. It works perfectly for investors' pocket and is expected to become a dominant investment trend in the market over the next couple of years in India. In advanced markets such as the USA, Singapore and Hong Kong, the concept has already seen significant traction.

The investors receive rental income in proportion to investments made in the property. Based on the same criteria, capital appreciation attained at the time of sale is also shared among the investors.

The merit of fractional ownership is not just limited to owning an institutional-grade commercial real estate property but also includes the following:

- Earning a steady, regular rental income, which is usually twice or thrice that of the rental earned from residential units
- A safe investment and improved liquidity as fractional ownership are Grade A quality or premium assets units, which can be sold at any point in time on the resale platform
- Capital gains that add an unrivalled multiplier effect to overall returns, if invested for a considerable time

Fractional ownership in quality commercial asset class offers a great solution to someone looking for a pocket-friendly investment, outside of the volatility of share markets, with low-interest rates on fixed deposits. It is also breaking the monopoly of high networth individuals in commercial real estate investments.

Plotted development

Plotted development is considered to be the fastest growing investment choice in the sector and comes in different forms, such as the gated community plots, residential lands for sale, residential plots for sale.

Why investment in plotted land development programmes is beneficial

Low cost

The advantage of investing in a residential plot is its availability at affordable prices as compared with ready-to-move-in properties.

Own space

Buyers have the convenience and flexibility of building a home of their choice, design and structure. Within a developed/developing gate community, buyers can enjoy the facilities provided by the community and customise the living space within budget and comfort.

Better returns on investment

The value of land always appreciates unlike the constructed properties whose value depends on varied factors. To reap the full benefits, one has to choose the right place and time to invest. As there are no depreciating elements involved in a plotted development, one gets the full benefit of the land value appreciation.

Taxes

According to the GST Act of India, the taxes levied on plotted development projects is lower than other kinds of residential properties.

Affordable Rental Housing Complexes (ARHCs) scheme

In accordance with the vision of a self-reliant India, the Ministry of Housing and Urban Affairs, after consultation with various private and public sector departments, launched ARHCs scheme. This scheme was particularly launched for urban migrants as a sub-scheme under the Pradhan Mantri Awas Yojana (PMAY). It promotes private and public entities to construct, operate and maintain rental housing complexes for urban migrants.

The ARHC scheme will be implemented through two models

Utilising existing government-funded vacant houses to convert into ARHCs through public-private partnership or by public agencies

Construction, operation and maintenance of ARHCs by public/private entities on their vacant land

Beneficiaries for ARHCs are urban migrants from economically weaker section (EWS)/low-income group (LIG) categories. ARHCs will be a mix of single or double bedroom dwelling units, with a dormitory of four to six beds including all common facilities, which will be exclusively used for rental housing for a minimum period of 25 years.

These complexes will ensure a dignified living environment for urban migrants which will be closer to their workplaces and available at affordable rates. This will unlock existing vacant housing stock and will make it available in urban spaces. It will also propel new investment opportunities and promote entrepreneurship in the rental housing sector by encouraging private and public entities to efficiently utilise their vacant land.

Real Estate Investment Trusts (REITs)

Keeping in mind the need for additional capital requirements in the sector, the Securities and Exchange Board of India (SEBI) took an innovative step by introducing Real Estate Investment Trusts Regulations, 2014 (REITs Regulations), for infrastructure projects.

The encouraging response has paved the way for many real estate enterprises with a substantial portfolio of rent-yielding properties to set up their own REIT. These regulations have been in effect since 26 September 2014.

Benefits of REITs for investors

Regular income

REIT's require the distribution of at least 90% of their taxable income to shareholders annually in the form of dividends. This ensures a steady stream of income for the investors.

Liquidity

Shares of publicly listed REITs are traded on the major stock exchanges.

Diversification

REIT is structured in a way that the investment amount is divided into various portions and invested in different assets and securities. This helps in diversifying the risk quotient.

Transparency

Independent directors, analysts, auditors, etc., monitor the performances and outlook of the listed REITs. This provides investors with a measure of protection and more than one barometer of a REIT's financial condition.

"The residential segment witnessed a slowdown owing to the COVID-19 pandemic, however, it is now on the revival path. As the economy recovers, the commercial and hospitality segments are also likely to grow in the coming months."

- Amit Kedia
Chartered Accountant, Mumbai

Benefits of REITs for developers/PE investors

Creation of liquidity

Developers and private equity (PE) investors can transfer their projects to REITs and convert their illiquid assets into liquid assets.

Control over RE assets

Even as assets are transferred to the REIT, the ultimate control/ management of these continues to be with the developer and PE investors.

Commercial viability

Better internal rate of return (IRR) for developers and PE investors since the fixed cost of capital associated with interest is reduced.

Co-living

Uncertain economic conditions, loss of jobs, employees working from home has caused a slowdown in the fledgeling co-living sector. While the year 2020 ended with co-living service providers reporting 45-55% recovery compared with pre-covid levels, the sector is expected to return to 2019 levels in both occupancy and rentals by December 2021.

The co-living sector in India comprises of 76 companies, of which 20 were established in the last three years. Total funding raised by the sector dropped sharply in 2020 to USD 66.27 million from USD 132.16 million in 2019, as per the data from Tracxn.

Data centres

The pandemic, along with India's march towards becoming a digital economy, caused an upsurge in the demand for setting-up data centres.

As India shifted to 'work from home' mode, virtual, streaming and remote working via online medium become the new normal. All the sectors have seen a shift to online platforms, resulting in data centres' businesses to expand. Initially, large amount of Indian data was being stored across global data centres in other countries. Subsequently, the government brought in regulations, including data protection, data vocalisation and privacy, which opened up domestic data centre market.

Deal activity

2020 witnessed an overall decline in the deal activity volumes. However, Brookfield India Real Estate Trust was the third REIT to launch an initial public offering (IPO) after the successful listing of Blackstone Group-backed Mindspace Business Parks REIT in 2020 and Embassy Office Parks REIT in 2019. This will encourage more builders to monetise their rent-yielding commercial assets through this route.

Mergers and acquisitions - domestic

Acquirer	Target	% Stake	USD Mn
DLF Cyber City Developers Limited	Fairleaf Real Estate Private Limited- One Horizon Centre	52	105.41
Embassy Office Parks REIT	Embassy Group-Embassy TechVillage	100	1,321.95
Gujarat Urban Development Company Ltd	Gujarat International Finance Tec City Company Ltd. City Company Ltd.	50	166.41
Embassy Office Parks REIT	Embassy Group-Embassy Manyata Business Park, Bengaluru and Embassy TechZone, Pune	100	64.05
NAM Estates Private Limited and NAM Opco	Indiabulls Real Estate Ltd.	100	N.A.
Yes Bank Ltd.	Reliance Infrastructure Ltd.- Reliance Centre	100	164.38

IPO

Company Name	Issue price	Equity offered	Issue size (In Rs Mn)	Issue size (In USD Mn)
Brookfield India Real Estate Trust	275	13,81,81,818	38,000.00	520.55
Mindspace Business Parks REIT	275	163,636,364	45,000.00	633.80
Macrotech Developers Limited	486	5,14,40,328	25,000.00	342.00

PE

PE investment in the sector is based on factors, such as overall economic and infrastructure growth including growth in the manufacturing, logistics and e-commerce. Apart from this, the geopolitical scenario and the policy enabling environment are key determinants.

From 2000 to 2015, almost 60% of the PE investments were in the residential segment when the focus of fund managers shifted to ready office assets. Interestingly, the couple of years have seen a notable interest in newer asset classes, such as student housing, data centres, warehousing and opportunistic assets.

Investor	Investee	% Stake	USD mn
Ascendas India Trust	Phoenix IT Infrastructure India Pvt Ltd- aVance 6	100	70.00
Kotak Special Situations Fund	Prius Commercial Projects Private Limited	100	61.64
Oaktree Capital Management	The Wadhwa Group-25 South	N.A.	57.43
Brookfield Asset Management Inc	RMZ Corp-12.5 million square feet of its real estate assets and CoWrks	18.0	2,000.00
The Blackstone Group Inc	Prestige Group – Carved out Commercial, Retail and Hotel assets	N.A	1,237.84
Blackstone Group Inc.	Mariana Infrastructure Ltd and commercial assets in Mumbai	N.A.	114.18
Brookfield Asset Management Inc	Jet Airways Godrej BKC Ltd- 3rd and 4th floors in the office building	100.0	65.00
International Finance Corporation and IFC Emerging Asia Fund	Puravankara Limited	N.A.	64.86
Angel investors	M Services LLP-Mpowered	N.A.	21.00
Tree Line Asia Master Fund and angel investors	Janaadhar India Pvt Ltd	N.A.	3.72
Swamih Investment Fund I	Windlass Developers Pvt Ltd.- Windlass River Valley	23.42	N/A
Warburg Pincus	Good Host Spaces Pvt. Ltd.	29.61	N/A

"Investors are still optimistic about the future of commercial asset class in India and are actively looking to invest in high quality assets across key markets."

- Neeraj Sharma, Chartered Accountant, Gurgaon

News bytes - Key developments

Real estate sector hit as COVID-19 disrupts housing sales, project launches – India Today	The second wave of COVID-19 has put brakes on the recovery of the real estate sector. Property consultants suggest that sales have started falling since April and the situation is likely to worsen if the situation does not improve.
Fractional ownership provides boost to commercial real estate – ConstructionWeekOnline	Fractional investment, a recent trend that has gained acceptance in the real estate industry, is a new, safe and feasible way to pocket-friendly investment in office real estate. Several investors pool in their money, to buy Grade A office property jointly. The assets are vetted legally and rigorous statutory and regulatory clearance checks are done before offering them to such individuals investors for ownership.
PE inflows in real estate in India rise 19% in FY2021 – Financial Express	Despite the pandemic, more than USD 6.27 billion were pumped into the Indian real estate sector in FY2021, as against USD 5.8 billion in FY20 – an increase of 19% in one year – which was the highest-ever PE investments in the sector since FY16.
How NRIs can better take care of real estate holdings in India – The Economic Times	NRIs often maintain and support a full-spectrum portfolio across all asset classes i.e., shares, mutual funds, FDs, real estate.
Covid second wave to delay real estate investment pipeline in Q2CY21 – Mint	Delays could result despite good momentum being maintained in institutional investments in India's real estate market during the first quarter of the calendar year 2021.

RMZ and CPP join hands for commercial real estate development in India – Business Standard	RMZ Corp., one of Asia's largest privately-owned real estate owners and developers and Canada Pension Plan Investment Board (CPP Investments) announced that they have entered a joint venture to develop and hold commercial office space in Chennai and Hyderabad.
How pandemic has given rise to more digitally equipped real estate industry – National Herald	The housing business sector will change as per the positive effects of digitisation. Transactions, capital deployment, property management, virtual visits and consumption patterns will be overwhelmed by it.
RERA provides relaxations in registering sale agreements – The Times of India	The RERA, Rajasthan, has provided relaxations to execute registration of agreement sale till March 2022, which is likely to benefit both the promoters and the buyers.
COVID-19 impact: Compact housing gains traction in India – moneycontrol	Demand for larger residential units has suddenly dropped due to many reasons, including the need to hold on to liquidity and to re-assess whether to commit a fortune for a larger residential unit - a move already labelled by some financial wizards as a dead investment.
REITs in India: How REITs are listed on stock exchanges; check dividend, tax benefits for investors – Financial Express	Burdened with significant capital being locked in a commercial real estate portfolio, the inclusion of commercial assets into an REIT at market value provides sponsors with a mechanism to unlock the assets' true potential.

COVID-19 - Readiness of the sector and impact of second wave

The real estate sector is India's second-largest employer after agriculture. Reforms such as the RERA Act (RERA), GST, Insolvency and Bankruptcy Code (IBC) have formalised the sector, which previously was largely unorganised and set the stage for accelerated growth in the near and medium terms. According to pre-pandemic projections, the sector was expected to reach USD 650 billion by 2025 and USD 1 trillion by 2023. However, these estimates may no longer hold true, considering the impact of COVID-19 on the industry.

India is the second most affected country by number of cases. The surge in cases during the COVID-19 second wave, resulted in large parts of India, especially Delhi, Maharashtra, Rajasthan, Odisha and Gujarat, being under partial lockdowns, weekend lockdowns, night curfews, etc.

However, as the drive to vaccinate 18-45-year-old and 45-year-old plus gains momentum, the impact of one of the world's biggest inoculation programmes will be seen in the residential real estate segment, which employs the largest number of unskilled workers.

According to the Reserve Bank of India (RBI), the risks to recovery may abate and economic activity may gain momentum in the second half of 2021.

Our Global Business Pulse corroborates this. 43% of respondents of the survey in India believe the economy is likely to recover during the third and fourth quarters of FY-22.

The January-March 2021 quarter witnessed a revival as housing sales increased 21% while new supply declined 40% year-on-year during the quarter across seven major cities. However, the demand has been sluggish in the next quarter (April-June) owing to the second wave of the pandemic.

Emerging trends that will shape realty in 2021

Property technology (Proptech) companies to evolve

Property owners and developers are relying on emerging digital technologies to deliver smarter and more efficient selling, leasing and property management experiences as homebuyers move to online real estate portals.

Housing demand momentum to sustain

Affordable housing will pave the way for a vibrant housing ecosystem as projects will flourish with tax exemption. Mid-segment and luxury properties will attract good traction as buyers will be more inclined towards upgrading to larger multi-purpose usable spaces.

Real estate consolidation to accelerate

Consolidation will make the real estate sector more organised and will bring the premium segment into focus. Limited funding availability, squeezing margins and shifting preferences towards bigger brands will push the smaller players out of business.

Property prices to witness marginal rise

As per industry reports, the total unsold inventory in the top eight cities stands at 9.5 lakh units and it will take a couple of years to reduce it to a sustainable level, even though sales have surpassed new launches. However, we may see a marginal rise in prices in some pockets.

Suburbs and tier-2 property markets to boom

Homebuyers are scouting for houses that are priced 30-40% less than those in the metros. Besides, the five-year rental outgo for tenants living in metro cities is equal to 30-50% of the property cost in smaller cities. This rationale for home-ownership will lead to a boom in housing demand in these satellite cities.

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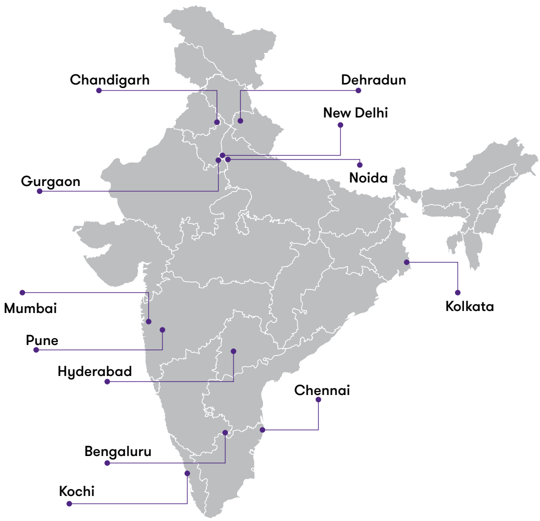

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