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Realty Bytes

Real Estate and Construction Sector

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Contents

Section	Page
Foreword	03
News updates	04
Realty trends	06
RERA headway	08
Buys and ties	10
Market speak	11
The way forward	12
How Rera Impacts You. Are You Ready?	13
Insights for real estate leaders in India	14

Foreword

Market trends continue to favour the commercial segment which has witnessed a slight hike in the rental values across the key markets. Residential segment continue to be in the wait and watch mode.



Sector continues to struggle, holds potential

The much awaited festive season couldn't bring much cheer to the realty sector. The pace of the sector which was already slow due to ongoing market slump further slipped due to transitional issues related to GST and RERA. Last few months saw both, the government and the real estate players, working diligently to implement the two legislations, which have a far-reaching impact, both on the sector dynamics and the developer community.

All states are in different phases of RERA implementation. While Maharashtra is clearly leading with over 4,800 projects registered till Aug 2017, more than 20 amendments/clarifications have been issued by the regulator. Also, about 70 rulings have been issued post adjudication of customer complaints.

Market trends continue to favour the commercial segment, which has witnessed a slight hike in the rental values across the

key markets. Residential segment continues to be in the wait and watch mode, both on the developers' and the customers' front. Investors continue to hold on to their investment decisions. While the mood has already moved from negative to positive, the money inflow is yet to happen.

Neeraj Sharma

Director

Grant Thornton Advisory Private Limited

News updates

Maharashtra 1st state to form RERA arbitration panel

Maharashtra will be the first state in India to form a conciliation committee under the new Real Estate (Regulation and Development) Act (RERA), comprising a panel representing builders and consumer groups to arbitrate complaints. It will mediate between two parties and help resolve their issues so they can avoid taking the dispute before the housing regulator. Only in case the dispute is not settled, the involved parties can lodge a complaint with the state regulator.

MahaRERA to slap minimum Rs 1 lakh penalty for ongoing project registration delay

The Maharashtra Real Estate Regulatory Authority (MahaRERA) has decided to slap a minimum penalty of Rs 1 lakh or an amount equivalent of its registration fees, whichever is higher, for ongoing projects registration applications to be received between August 3 and August 16.

Tamil Nadu RERA notice to 320 buildings not registered with regulator

The Tamil Nadu Real Estate Regulatory Authority (TNRERA) has sent notices to 320 builders who have failed to register with it projects in the Chennai Metropolitan Area (CMA) after plan permission was issued. TNRERA sources said the Chennai Metropolitan Development Authority (CMDA) approved construction of 400 and 385

buildings in 2015 and 2016. Of these, 320 were not registered as per the Tamil Nadu Real Estate (Regulation and Development) Rules, 2017 notified on June 22. After collecting details from the planning authority, sources said, show cause notices were issued till August-end. "So far, around 50 per cent of the builders have responded. A majority have said the building is being constructed for their own use and 12 have said they have not yet started their projects," an official said. Of the 12, five have applied for revised plan permission, he added.

Delhi's Updated Land Pooling Policy: With more private participation, residential projects to gather momentum

The lieutenant governor of Delhi's notification of 89 rural villages to urban areas has again brought to the fore the Land Pooling Policy of Delhi, which has been gathering dust for nearly two years now. The Delhi Development Authority (DDA) had approved the policy in the last week of July 2013, and thereafter, it was notified by the Union Ministry of Urban Development in September in the same year. The operational rules were also approved by the ministry in May 2015.

Govt unveils new PPP policy as part of push for affordable housing

The central government on Thursday announced new public private partnership (PPP) policy to promote private investments in affordable housing in line with its Housing

for All target by 2022. Speaking at the Real Estate and Infrastructure Investors Summit 2017, organised by real estate body National Real Estate Development Council (NAREDCO), minister of housing and urban affairs Hardeep Singh introduced eight PPP options for the private sector to invest in affordable housing segment.

Good news for tenants! New redevelopment policy for 'unsafe' buildings in Mumbai suburbs

To avert loss of life and property resulting from the collapse of buildings, the state government has announced a new redevelopment policy for tenant-occupied dilapidated buildings in the suburbs and non-cessed tenant-occupied buildings in the island city. The existing policy is only for old cessed buildings in the island city, where private developers get additional construction benefits for redeveloping such properties and rehousing tenants in a new building. Cessed properties are those which tenants pass a cess to the housing authority, Mhada. This cess is used for repairing such buildings. But non-cessed buildings, which include co-operative housing societies, were, so far, not covered under this policy.

Gr Noida Authority proposes Rs 1,500-crore fund to bail out stalled housing projects

In what may benefit over a lakh home buyers, the Greater Noida Industrial Development Authority has proposed the creation of a

special relief fund to bail out the stalled realty projects of small builders. This proposal entails earmarking of Rs 1,500 crore for the fund for the use of stuck group housing projects in the city.

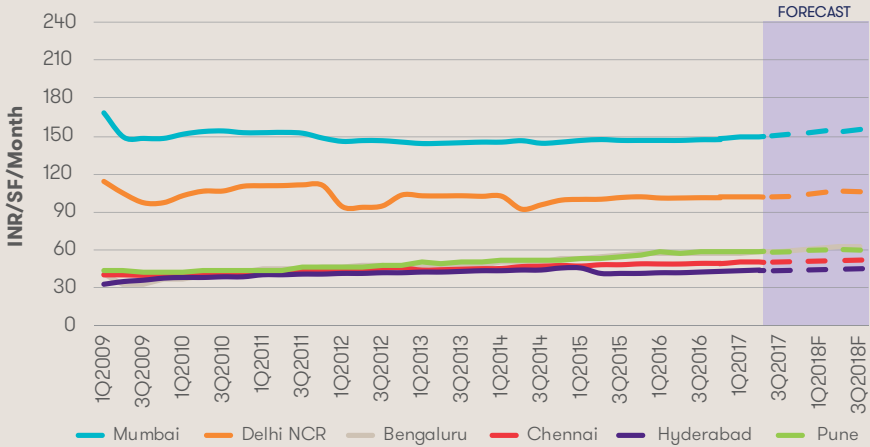
Big-ticket private equity investments take January-August deal tally to \$13.8 bn

Private equity investment activity in the country improved in August following big-ticket transactions that drove the overall deal tally to as high as USD 13.8 billion so far this year, says a report. According to assurance, tax and advisory firm Grant Thornton, there were 47 private equity transactions worth USD 4.96 billion in August, registering a significant jump over last year (August 2016) when deal tally stood at just USD 1 billion. E-commerce sector dominated the private equity investment in value term, contributing to 51 per cent of total such investment in August, mainly driven by Softbank's USD 2,500 million funding in Flipkart.



Realty trends

Average Commercial Rental Value Trends



Source: GT India Research

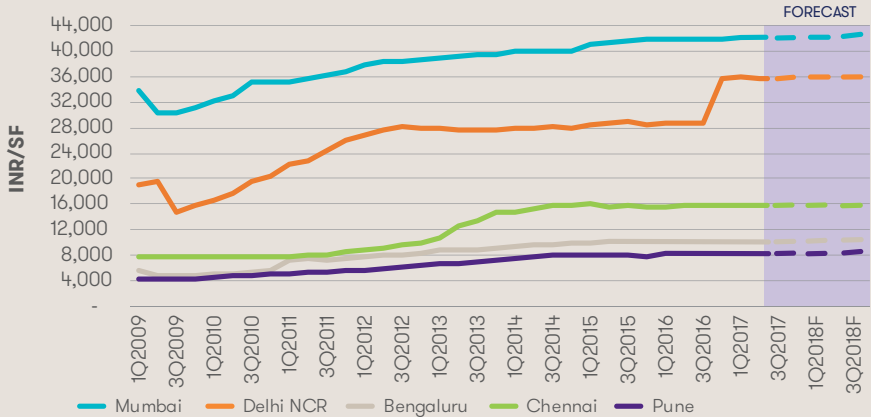
Commercial rents witness a moderate hike in Q3 2017

During Q3 of 2017, gross leasing activity was mixed across the region with major cities like Bengaluru, Chennai, Mumbai and Pune registering a positive absorption at Q-o-Q levels, which resulted in steady hike in commercial rental values across Bengaluru, Chennai, Mumbai & Pune by 1 per cent on QoQ basis and 2 per cent on Y-o-Y basis. However, cities like Delhi, Gurgaon, NOIDA, Hyderabad accounts a stable scenario due to less leasing activities witnessed during the quarter. IT/ITeS remained as the key occupiers, followed by BFSI and Institutional small & mid-sized occupiers.

GT Forecast

India commercial leasing volumes this quarter are likely to be marginally lower (2-4 per cent) than Q2 2017, with upside potential for improved activity by year-end. While supply schedule is packed in 2017-18 and there is a dearth of Grade A office spaces, several markets have performed well and so we expect that the rent will thrust upwards marginally to 2-3 per cent. Bengaluru, Mumbai, Hyderabad and Pune will be the top performing markets.

Average Residential Capital Value Trends



Source: GT India Research

No full-swing recovery witnessed in Indian Residential markets in Q3 2017

In Q3 2017, Indian residential market was unable to recover from the impact of two major regulatory changes GST and RERA. Although many states have now adopted the RERA regime, all the efforts have not managed to revive the end-users' and investors' confidence back to normal. In most of the metros, capital values remained stagnant due to 0 to 1 per cent market penetration barring Mumbai, Pune and Bengaluru where capital values were marginally up in the range of 1-2 per cent. This could be due to effective implementation of RERA in Maharashtra & good office absorption in Bengaluru during the quarter. Except few new project launches, majority of the developers refrain from launching new projects as cities like Delhi NCR, Mumbai, Pune & Chennai are already facing over supply

situation and many of the developers were completing their RERA registration processes with the concerned authorities.

GT Forecast

Since festive season is round the corner, many developers will cash on the time by offering various benefits like GST waiver and other freebies on their existing and new projects. Also, adoption of RERA & central Government initiatives like CLSS (Credit Linked Subsidy Scheme) will bring confidence among both, end users and investor groups. However, regulation will take time to stabilise and have already shown initial transitional issues. We expect residential market will remain stagnant for next few quarters and start showing signs of revival by second half of 2018 and positively grow by early end of next year.

RERA headway

MahaRERA (Maharashtra Real Estate Regulatory Act)

State of Maharashtra pioneered in establishing RERA among the other peer states on 8 March, 2017, for regulation and promotion of real estate sector in Maharashtra.

We looked at the State of Maharashtra in-terms of RERA implementation and some of the key highlights are summarised below:

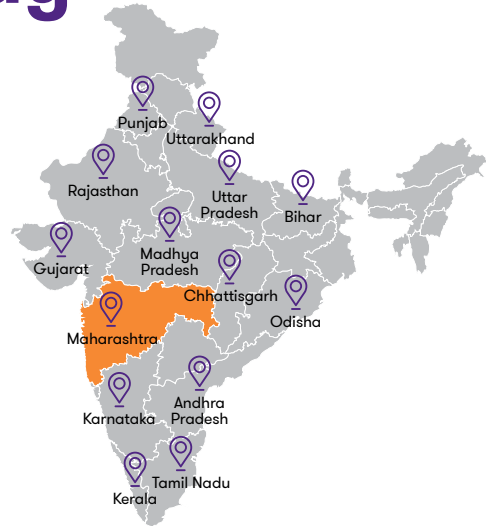
Major Recent Developments in MahaRERA

4 Major rule amendments:

- Hiring of officers and employees
- Registration of Real Estate Projects, Registration of Real Estate Agents, Rates of Interest and Disclosures on Website
- Recovery of Interest, Penalty, Compensation, Fine payable, Forms of Complaints and Appeal, etc.
- Form of Annual Statement of Accounts and Annual Report.

17 Major clarifications orders and circulars passed

- Registration for ongoing projects
- Standard Operating Procedure for handling complaints
- SOP for updating registered projects and revising/correcting information with respect to Registered Projects and Registered Real Estate Agents
- Clarification on CA Certificates
- Clarification regarding Project Registration Process
- Fees for updating of website, database management and maintenance of the website
- **Definition of Co-promoter:** Individual/other than individuals, having share in revenue/Share in total area developed in the Real Estate Project
- Office order making local address mandatory for Promoter/Agent for Registration
- Clarification regarding the license number of Engineers
- Recognition of heads of Finance Department of government controlled development authorities, autonomous bodies, etc.
- Self-declaration to be submitted by the Promoters to the Bank
- Clarification on calculation of carpet area
- Designation of Adjudicating Officer
- Clarification regarding the period within which promoter has to transfer the title by executing conveyance
- Clarifications on Operating Designated Bank Account



70 Rulings

About 70 Rulings have been passed out by MahaRERA regulator on customer complaints, mainly regarding delay in possession



Grant Thornton in India-FICCI Event on “Emerging Compliance MahaRERA & GST, an interactive session with the Maharashtra Regulator

Grant Thornton in India-FICCI jointly organised an interactive session with MahaRERA Regulator Shri Gautam Chatterjee, where the regulator highlighted that till Aug 2017, over 12,700 applications were received out of which 8,000 have been registered. He also pointed out the demand-supply mismatch in the affordable segment and the importance of private players developing projects for the economically weaker section, low and middle income groups.



Buys and ties

Significant PE deals

PE Investments

Investor	Investee	Business Description	Sector	% Stake	Investment Value in USD mn
International Finance Corporation	Mahindra Lifespace Developers Ltd	Residential Development	Real Estate	N.A.	50.00

Significant IPO

IPO

Company Name	Issue Price	Equity Offered	Issue size (In Rs Mn)	Issue size (In USD Mn)
Bharat Road Network Limited	205	29,300,000	6,006.50	93.85
Capacit'e Infraprojects Limited	250	1,600,000	400.00	6.15

Significant M&A deals in the construction sector

M&A Transactions

Acquirer	Target	Seller	Business Description	USD Mn	Deal Type	% Stake
ANAROCK Property Consultants Pvt. Ltd	Redwoods Projects Private Limited	LJ Hooker	Provides customised real estate solutions to clients. The company also offers services pertaining to fund management, deal structuring, fund syndication, joint developments and unique transactions	N.A.	Acquisition	100%

Source: GT India advisory

Market speak

We interviewed Mr. Sudip Mullick – Partner, Khaitan & Co, to understand his views on RERA. Below are the excerpts from his interview.



In your view, what challenges developers faced in registering their projects under RERA across various states?

Developers have faced some difficulty such as not having fields for entering joint development for a mix of area share and revenue share model. We have also noticed that uploading of plans and voluminous documents becomes difficult where there is a doubt about how much common amenities is part of a phase and usage thereof by others.

There are various acts/legislations, which a company/developer need to comply with. How do you see the interplay of other Acts vis-à-vis RERA?

In certain circumstances for example, where there is a local law which is in the same field as RERA, application of local law will be prioritised. However, where there would be any conflict between local law, provisions of RERA would prevail. As regards special laws like the application of insolvency and bankruptcy code, the requirements under such law would not dilute the requirement under RERA.

Going forward, how do you see adjudication process getting evolved in RERA? Will this lead to more litigations for the sector?

I do not see litigation increasing. However, in certain circumstances where there is a delay in a project prior to registration with RERA, which warrants compensation to

the homebuyers (and homebuyers wishes to continue with the project), there will be a need to approach the consumer forum, leading to multiplicity of legal proceedings. Adjudication process would get streamlined under RERA. For example, if a developer delays a registered project and a homebuyer intends to walk out of the Project, RERA will determine whether there is in fact a delay by the Developer and the Developer is bound to refund the principal interest and compensation of the homebuyer. The amount of compensation would be decided by the Adjudicating Officer. Therefore, adjudicating officer will first have to conclude whether there is in fact a delay and once the adjudicating officer concludes there is a delay, the adjudicating officer will have to go through the process of ascertaining the compensation to be levied.

We have seen Maha RERA taking a lead in terms of implementing RERA and coming out with various clarifications/ notifications, etc. Other states are still in various stages of compliance. Do you think this model can be looked at by other states as well, which will lead to smoother implementation of the Act, across India.

Yes, I totally agree with you, but for such action lot of efforts need to be put in place. In fact, I believe regulator in Madhya Pradesh is also conducting seminars across the state to educate people about the law and rules.

The way forward

Disruption leads to opportunity

The signs of disruption are clearly visible in the realty sector, which continues to catch up with the sentiments and market dynamics. Amidst the whole chaos around changing legislations, there are players who are finding it difficult to manage the tide. Current situation opens up an opportunity of consolidation in the sector, wherein large players clearly lead the game. Apart from consolidation, developers are also looking at diversifying their business plans, with a mix of commercial and affordable housing also getting some share in their overall pie.



How RERA Impacts You. Are You Ready?



1. Finance

- Cash flow & liquidity management after (70% Clause)
- Managing project wise bank accounts & manage withdrawals
- Auditing of accounts (RERA audits)



2. Legal & Regulatory

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



3. Project Management

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



4. Marketing, Sales & CEM

- No promotion before registration
- Clear cut adv. no false promise
- Managing complaints
- Managing cancellations compliance with terms agreed
- Broker management
- Customer Interface

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

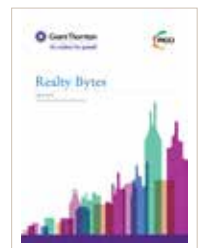
Insights for real estate leaders in India

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

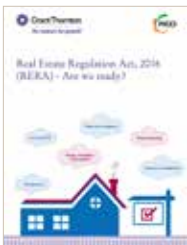
Annual Handbooks



Realty bytes: Quarterly publication on key developments of the sector



Other thought leadership publications



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