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INDUSTRY OUTLOOK

REAL ESTATE SECTOR POISED FOR HIGH GROWTH DESPITE GLOBAL AND NATIONAL HEADWINDS

14 July 2023

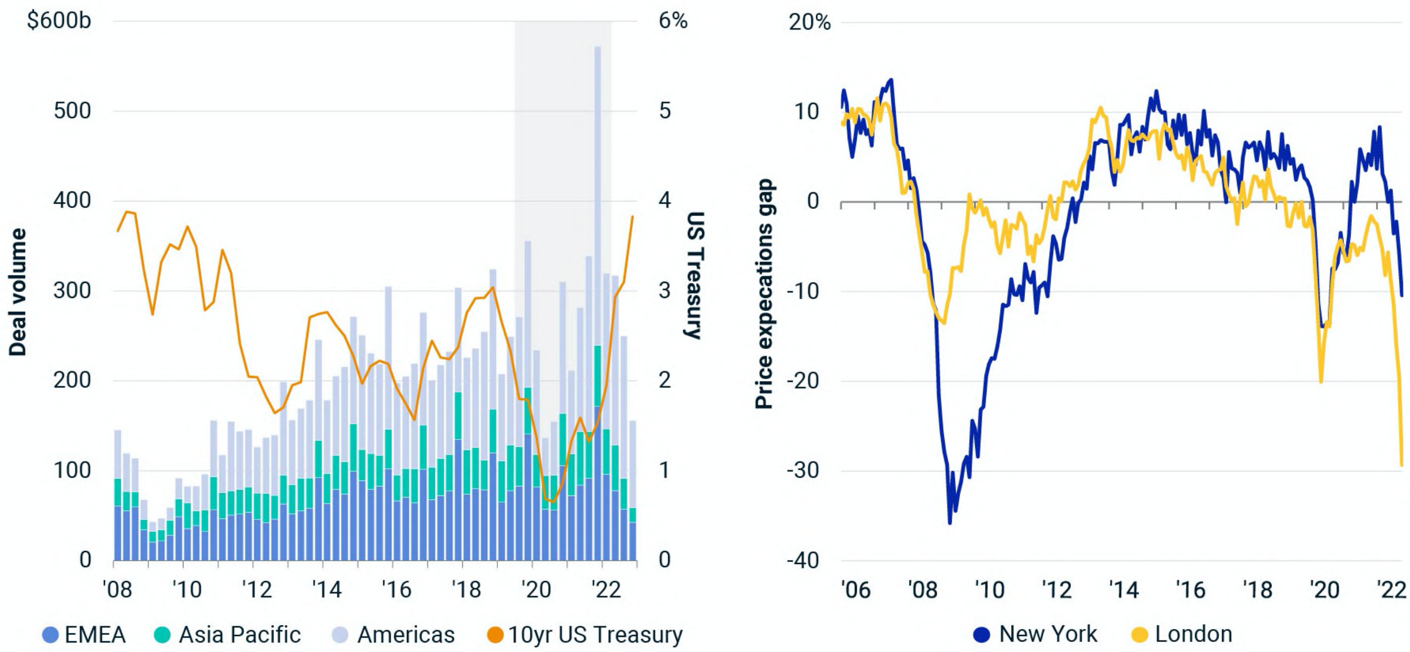
"If you don't create change, change will create you." - Anonymous

Global Positioning

Globally, 2022 was a remarkable year for real estate as the combination of pent-up economic demand and exogenous supply disruptions caused by the Russia-Ukraine conflict led to inflation reaching levels unprecedented in decades. Similarly, in 2021, investment landscapes generated the highest returns since pre-2008 global financial crisis (GFC), rebounding back from COVID-19 related volatility and a particularly robust industrial market. However, in 2023, investor morale and activity in the transaction markets are being dampened by persistent uncertainty and rising borrowing prices.

Unfortunately, challenging economic circumstances persist in many nations due to consistently high inflation, rising interest rates, and compromised labor markets. The financial sector crisis has also contributed to increased volatility. The effects of these economic headwinds on the office sector have intensified during the first quarter, with global leasing volumes 18 per cent below Q1 2022 and declining across all three regions.[1] The office market has been particularly affected by changes in asset financing and the uncertainty surrounding future demand in major global cities such as London and New York.[2]

Figure 1: Low transaction activity as buyers and sellers differ on price expectations



Source: MSCI, 2023.

The acquisition of First Republic Bank by J P Morgan Chase & Co. will result in the consolidation of two of the top 25 commercial-real-estate lenders in the United States, which may further complicate asset pricing due to a shift in competition for the debt portion of the capital stack. Additionally, the failure of the banking system does not help alleviate the uncertainty that is leading banks to curtail construction loans.

Marco Santarelli[1] uses three examples of risk mitigators in the market:

- Diversification of Commercial Real Estate: While the office sector is facing significant challenges because of cross-sector market slowdown, other segments of commercial real estate, such as industrial, retail, and hotels, are performing relatively well. The diversity of assets in the commercial real estate market provides a buffer against potential risks, as the struggles in one segment can be offset by the strength of others.

- Manageable Refinancing: Despite the refinancing cliff, a considerable portion of commercial real estate debt appears capable of being refinanced without major issues. Banks have maintained strict lending standards, and most debt in the market generates sufficient income to meet these standards. This indicates a certain level of stability and preparedness in the industry.

- Strong Credit Performance: Banks have reported excellent credit performance in commercial real estate lending, with low delinquency rates and minimal losses. This suggests that lenders have been cautious in their underwriting practices and have managed risk effectively. The overall health of the commercial real estate market's credit performance indicates a level of resilience in the face of potential challenges.

Rare bobble. Commercial real estate (CRE) prices in the US declined in the first quarter of 2023 for the first time since 2011. While the sector's decline was less than 1 per cent, it brought to the fore the perils of risk across the banking industry. Banks hold more than 60 per cent of the US$ 3.6 trillion worth of outstanding CRE (Commercial Real Estate) loans, and smaller institutions are especially exposed. Many loans back-office towers and downtown retailers, both of which have been hard hit by the cultural shift to working from home. [Bloomberg][2]

Unlucky numbers. Data crunching of the CRE sector revealed office lease revenue fell by 19 per cent since the COVID-19 pandemic began, New York City's office buildings may have dipped in value by a whopping 40 per cent to 45 per cent, and office buildings nationwide are expected to lose US$ 500 billion in value. The repercussions for the banking sector—particularly the regional banks that hold significant CRE debt—and the rest of the financial system could justify enacting public–private sector solutions to tame the potential crisis. [Washington Post][3]

Well-earned reputation. CRE has long enjoyed a reputation as a solid inflation hedge. McKinsey[4] senior partner Rob Palter[5] and coauthors discovered that CRE's inflation-beating status is deserved: through seven inflationary periods dating back to 1980, CRE returns, at 11.7 per cent annualized, have generally outperformed inflation. But in the current period of high inflation, is CRE likely to continue performing in the same way? If not, what can owners and operators do about it? These are difficult questions and require a close and careful analysis of the multi-layered issues under review.

Critical cap rates. CRE has outperformed inflation in the recent past, but rent growth rarely keeps up with inflation. Instead, capitalization rates (the net operating income yield investors are willing to accept) have tended to compress as investors poured into what they perceived as a safe asset class. Today, cap rate compression is far from guaranteed (McKinsey)[6].

Last year, total returns in United Kingdom (UK) remained positive until the third quarter, but an ongoing shift in monetary policy (the bank of England base rate rose from 0.25 per cent to 3.50 per cent over the course of the year) caused property yields to rise to accommodate a higher risk-free rate and a higher cost of capital.[7]

Indian Perspective

Considered in a proper historical and comparative perspective, the real estate industry has emerged as a major growth driver both in terms of enhancing and broad basing the process and pattern of economic growth and structural transformation. The rising size of the sector and the compelling necessity to provide basic minimum needs together with the multiplier effects on the broader economy underpin the government's steadfast commitment to create twenty-five million housing units in the urban areas.

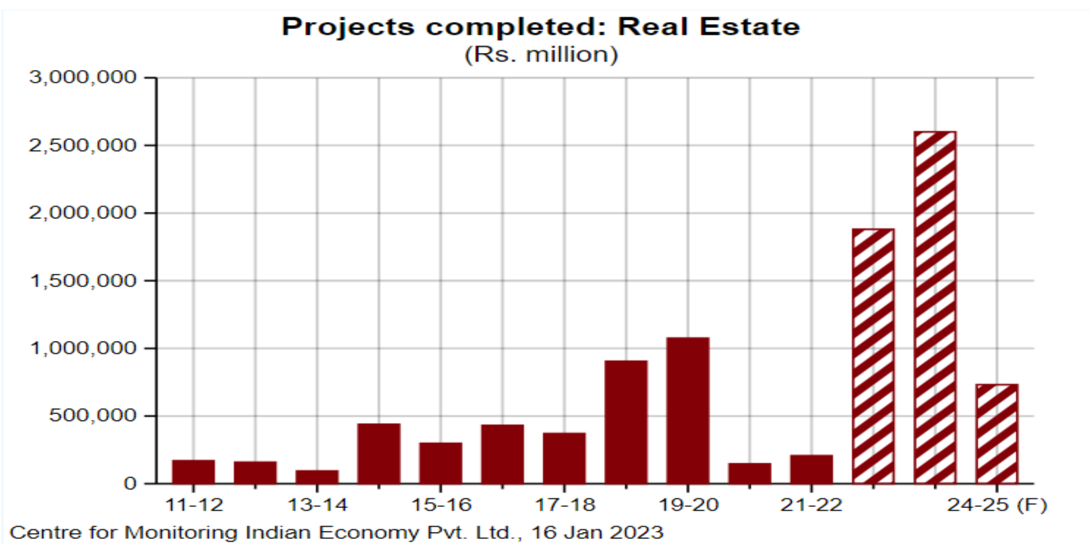
In India, the real estate sector encompasses a variety of segments, such as, residential, office, commercial, or retail real estate depending upon the purpose of the building. The real estate sector has significantly contributed to the economic development of the country. The real estate in India is expanding, which has a positive impact on the country's GDP (Gross Domestic Product). Currently, the sector contributes 6 - 7 per cent to the nation's GDP and is projected to contribute 18 per cent to the GDP by 2030 as more segments, such as, warehousing, logistics, industrial parks, data centers, student housing, co-living, and senior assisted living individually and collectively to facilitate higher sectoral growth. It is the second largest source of employment after the agriculture sector.

Now that India is the most populous nation in the world, it is more essential than ever to invest in and develop environmentally conscious and sustainable real estate. The Union Budget FY24 was inclusive, and comprehensive, with a proactive approach to green growth that instills confidence in the industry as an indispensable ally for long-term growth. A steep rise in capex to 3.3 per cent of GDP was a major highlight of the Budget, providing a strong impetus to infrastructure and allied industries.[8]

Despite the obstacles, such as, the rising cost of raw materials and the increasing interest rate in 2022, the overall sentiment remained optimistic in the real estate sector, with a recovery phase, observed across all tiers I, II, and III cities, leading to growth. The retail inflation eased to 6.4 per cent in February 2023, while core sector growth registered a 4-month peak of 7.8 per cent in January 2023. The Services PMI (Purchasing Managers' Index) recorded a 12-year high of 59.4 from in February 2023 and forex reserves reported a 6-week high of US$ 572.8 billion (₹ 47 trillion) on 17 March 2023. Further, the International Monetary Fund (IMF) forecasted a 6.8 per cent GDP growth for FY24 and sales in the top seven Indian cities increased by 68 per cent year-on-year (YoY) in 2022, the highest in over a decade, establishing India as the fastest growing major economy. Estimates suggest that India's real estate market will be worth US$ 13,000 crore by 2023.[9]

For 2023, everything seems hunky dory so far, with residential market of top South Indian cities, such as, Chennai, Bengaluru, and Hyderabad likely to register 10 per cent to 15 per cent increase in demand resulting in significant increase in new project launches.[10] As per CMIE data, this year, projects worth of ₹ 2.6 trillion are currently under implementation and scheduled to be completed. Out of this, we anticipate at least ₹ 1.5 trillion worth of projects to be completed (see figure 2).

Figure 2: Projects Completed in India from 2011- 2022.

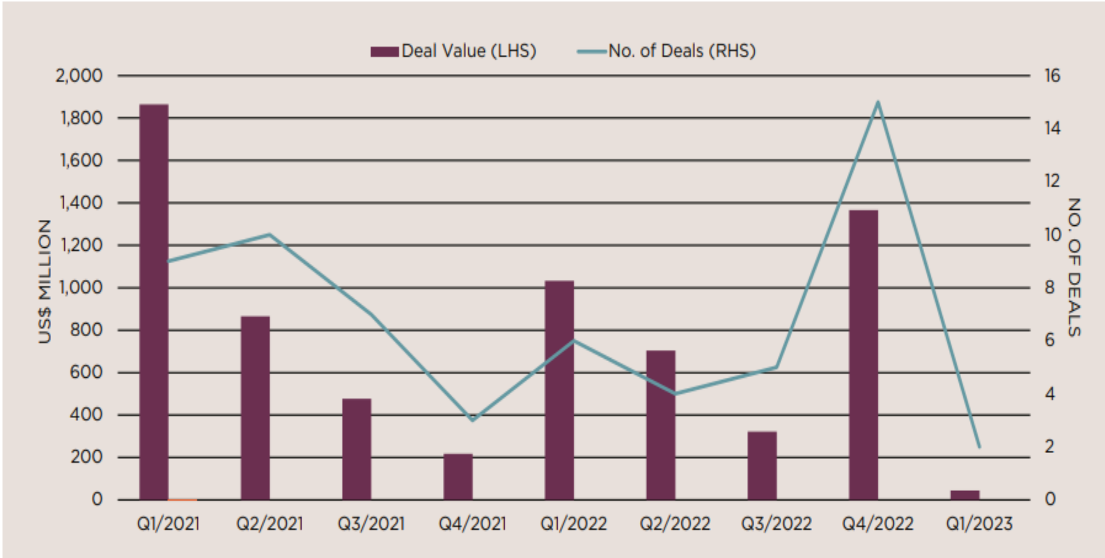


Source: CMIE data.

Investments

Between January-July 2022, private equity investment inflows into the real estate sector in India stood at US$ 3.27 billion. However, according to Savills India, private equity investment inflows into the Indian real estate sector experienced a significant decline of 97 per cent sequentially in Q1/2023 compared to Q4/2022, reaching only US$ 45 million (₹ 3.7 billion). This is due to the growing global recession concerns, rising cost of capital, and valuation expectations divergence between sellers and investors.[11]

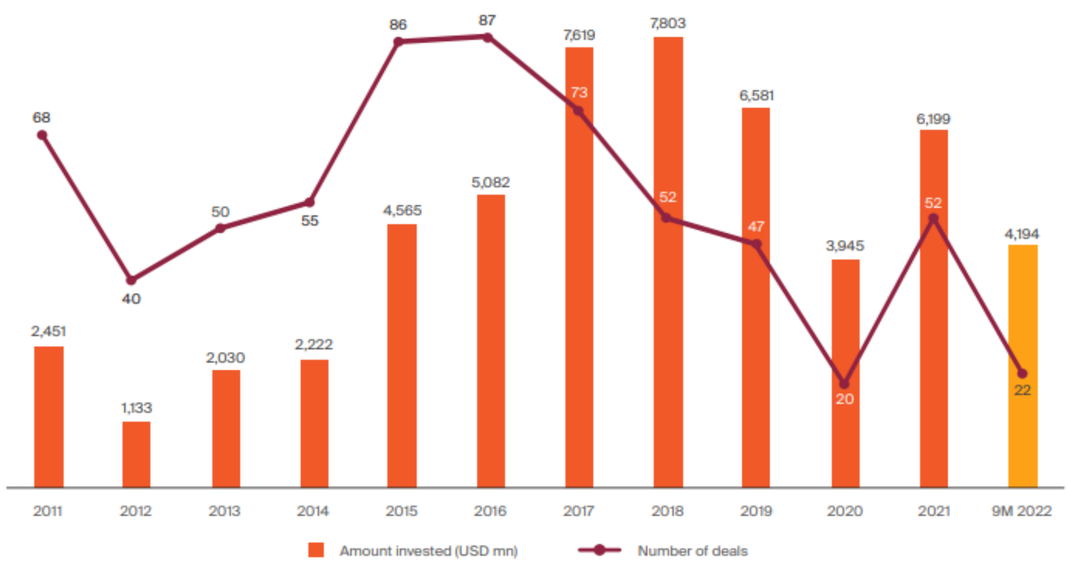
Figure 3: Quarterly Private Equity Investment in Indian Real Estate (US$)



Source: https://pdf.savills.asia/asia-pacific-research/asia-pacific-research/apiq-q1-2023.pdf

In the Q3/2021, the Institutional real estate investment in India increased by 7 per cent YoY. Investment registered in the first nine months of 2021 stood at US$ 2,977 million, as against US$ 1,534 million in the same period last year.[12] As per Frank Knight research, the private equity investment in the nine months of 2022 stood at US$ 4,194 million.

Figure 4: PE investment of US$ 4.2 bn in 9 months of 2022



Source: Investment in Real Estate, Knight Frank

This scare arises after the withdrawal news of ₹ 2000 bills till September 2023 by the Reserve Bank of India (RBI). It is, however, reassuring that the RBI has already given sufficient time to deposit these notes back into the banks. Only small traders who buy their raw materials or pay for their purchases via cash mode will be affected. We expect the market will not be significantly disrupted, as online transactions can be used for emergency purposes. This is being done only for the sake of balanced currency management within the setting of upholding

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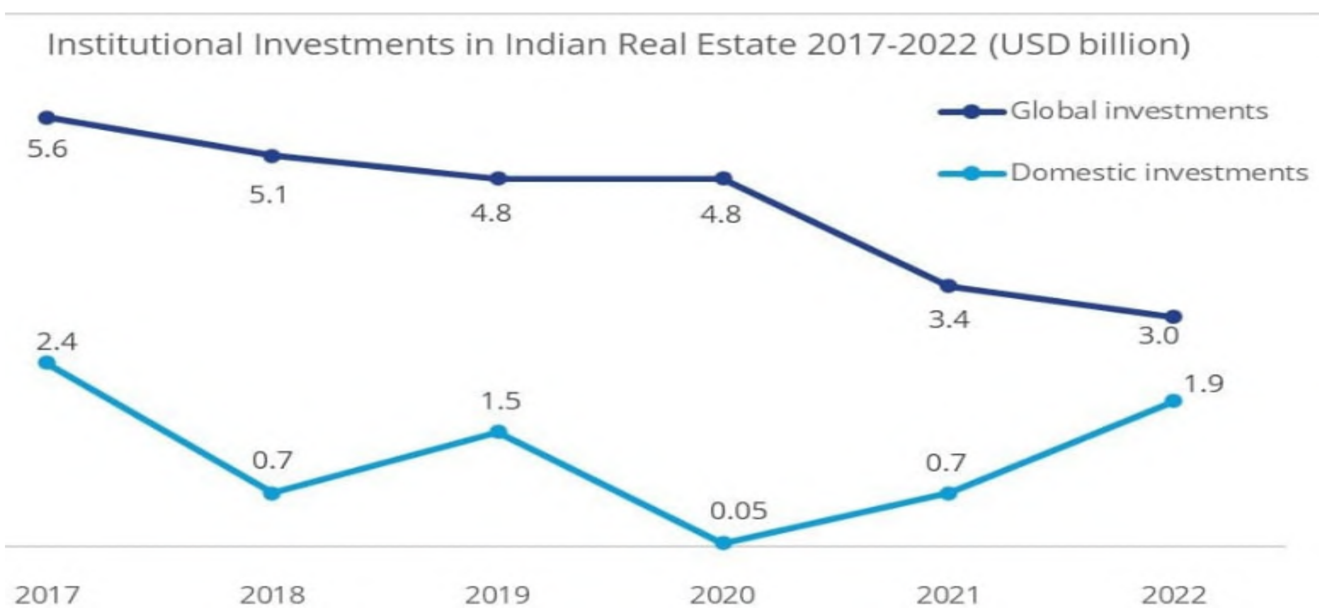
monetary and banking order. For the next quarters of 2023, we must be watchful of the real estate market as investors prefer most transactions to be done in cash.

Transformation is also moving back up the agenda for many businesses, having been somewhat on the backburner post-Covid and this is being reflected in the upsurge in the demand for real estate in India. The treacherousness of property emerges, however, from the sheer size of the asset class; the amount of debt required and gearing in property, i.e., loan to value (LTV) ratios; and the double whammy of leveraged banks and leveraged property. A comparison between Commercial real estate and residential for the five-year period (2015-2020) shows that the share of investments in the commercial segment have increased over the years. This clearly indicates that despite many hiccups like GST (Goods & Service Tax) issues, real estate frauds, NPA (Non-performing assets) challenges, demonetization, the perception of foreign investors continues to be favorable.

According to Colliers[13], institutional real estate investment rose 37 per cent to US$ 1.65 billion in January–March, led by office and housing assets as compared to US$ 1.2 billion inflows last year. Over the six-year period from 2017 to 2022, India received cumulative foreign institutional inflows of US$ 26.6 billion into the real estate sector, making a three-fold rise from the preceding six-year period.[14] As per the Colliers report, foreign investors chose office properties, while domestic investors favored housing.[15] In January–March, office investment accounted for 55 per cent of inflows, whereas 22 per cent was residential. In January-March, office sector institutional investment inflows climbed 41 per cent to US$ 907.6 million from US$ 643.6 million. Residential inflows rose to US$ 361.1 million from US$ 16.5 million. Industrial and warehousing inflows rose 20 per cent to US$ 216.3 million from US$ 179.9 million. Alternate asset investment jumped to US$ 158.2 million from US$ 39.8 million. Data centers, life sciences, elder housing, vacation houses, and student housing are under the realm of alternatives. Retail real assets received no investment in January-March compared to US$ 257 million in the year before. Mixed-use project inflows dropped 80 per cent to US$ 15.1 million from US$ 77.3 million. The global investors remained inclined towards office and industrial assets and dominated the total investment inflows at 76 per cent share.[16]

Figure 5: Global vs Domestic Investment in Indian Real Estate



Source: https://www.constructionweekonline.in/business/foreign-institutional-investment-in-indias-real-estate-skyrockets-to-26-6bn

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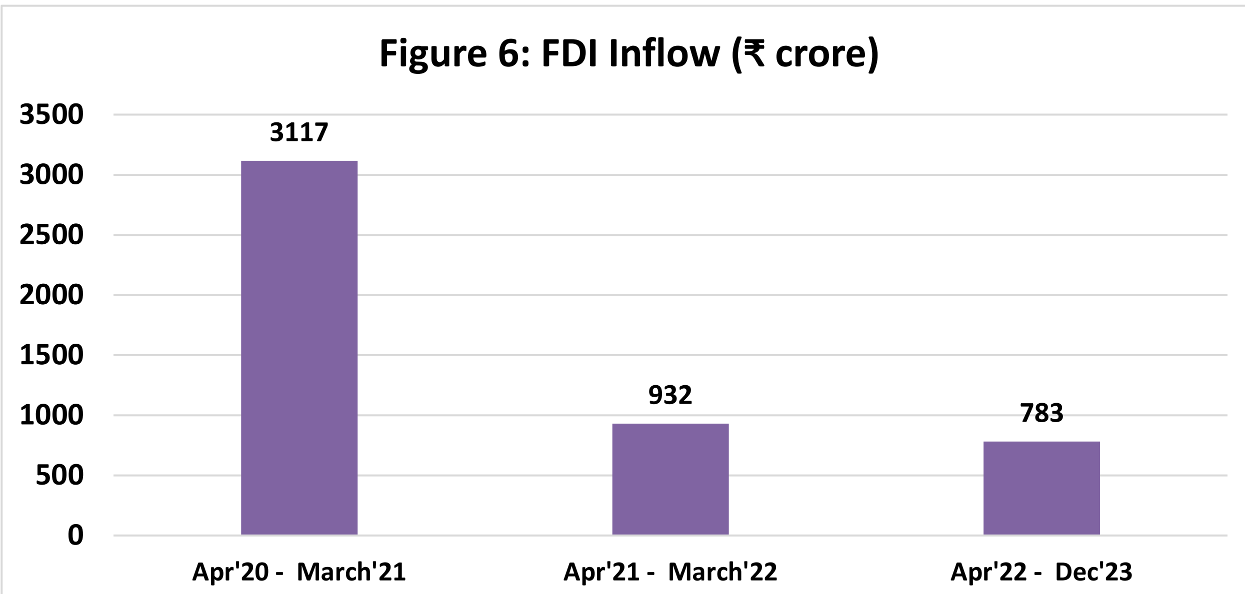
In 2022, foreign investors held a 57 per cent share of the total volume of real estate investments. Canadian investors accounted for nearly 37 per cent of foreign capital inflows, followed by American investors at 15 per cent.[17] According to the "India Market Monitor 2022" report, domestic investors contributed the remaining 40 per cent of total investment in 2022. In 2022, institutional investors led investment activity with a 51 per cent share, followed by developers with 32 per cent.[18]

Large markets, such as Delhi-National Capital Region (NCR) and Bengaluru attracted a third of the total investment during the quarter, which was led by increased activity in these markets. However, the majority of the inflows, i.e., 63 per cent were through multi-city deals.[19] Delhi-NCR and Mumbai cumulatively led the investment activity with over 56 per cent.[20]

In 2022, the investment climate in India deteriorated as investors grew more cautious in response to escalating international tensions and rising inflation and interest rate concerns. As a result of investors' increased prudence, there were fewer transactions in 2022, resulting in a decline in investments.

Foreign Direct Investment



Source: Department for Promotion of Industry and Internal Trade statistics

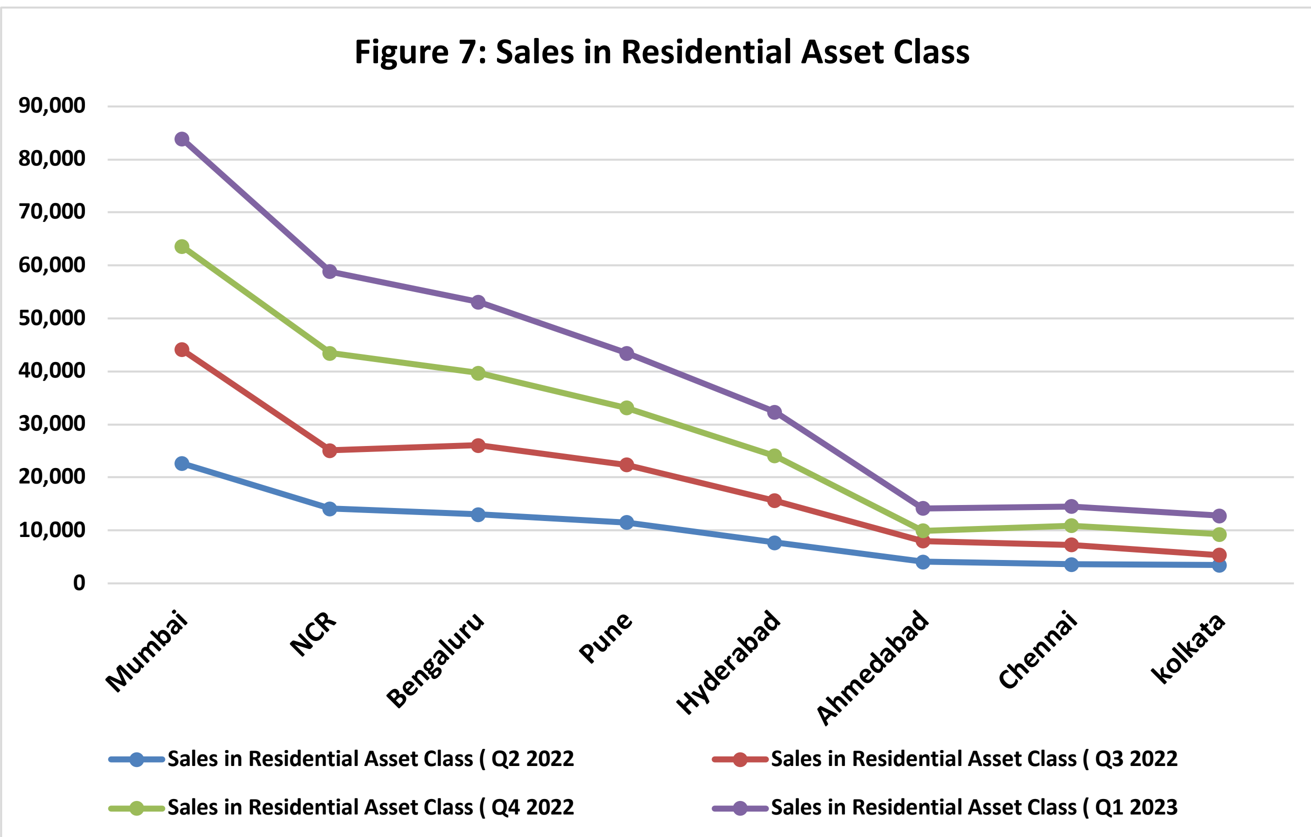
Residential Segment Outlook

In the residential segment, the pandemic changed the perception among homebuyers as much as the buying decisions now also factor in adverse impact on income, 'thriftiness' caused by unforeseen emergencies, 'access to large green areas' and 'access to good healthcare.'

The residential real estate market in India demonstrated its prominence as one of India's fastest-growing industries by establishing new sales record of 68 per cent YoY in 2022.[21] The year 2023 was expected to be bullish for real estate. According to Knight Frank's report titled "India Real Estate"[22], the residential market started the year 2023 on a solid foundation, with the first three months of the year showing sales of 79,126 units, which marked a 1 per cent increase when compared to the same period last year. The sales increased by 19 per cent YoY in the Hyderabad market, while sales in the bigger markets of Mumbai and Bengaluru decreased marginally by - 6 per cent and - 2 per cent, respectively, YoY. Prices increased steeply across major markets, with Bengaluru, Mumbai, and NCR expanding by 7 per cent, 6 per cent, and 3 per cent corresponding YoY, even though sales volumes have remained unchanged in the first quarter of 2023. Bengaluru, Mumbai, and Pune together account for 61 per cent of the quarterly sales.

According to JLL[23] research, the residential market recorded sales of over 62,000 units in Q1 2023, representing an increase of 15 per cent sequentially and 20 per cent YoY across the top 7 cities of India. The premium segment (priced above ₹ 1.5 crore) is doing well with the apartments priced above ₹ 1.5 crore accounting for 22 per cent of the overall sales. The range of ₹ 50 lakh—75 lakh category still dominates the market with a one-quarter share in the Q1 2023 sales.

With the increase in the repo and home loan interest rates, along with a rise in residential prices across the top seven cities of India ranging from 4-12 per cent YoY, the cost of acquisition for home buyers has increased. This has led to a decline in the share of the affordable segment in quarterly sales in Q1 2023 as compared to the previous year. The share of apartments priced below ₹ 50 Lakh (affordable segment) in quarterly sales declined from 22 per cent in Q1 2022 to 18 per cent in Q1 2023. Compared to the previous quarter, new launches in Q1 2023 witnessed a growth of 19 per cent.



Source: Knight Frank report.

Home Loans

Table 1: Home Loan Interest Rates of Banks and HFC			
Name of Lender	Up to ₹30 Lakh	₹ 30 Lakh to ₹ 75 Lakh	Above ₹ 75 Lakh
Public sector banks			
Bank of Baroda	8.60%-10.65%	8.60% - 10.65%	8.60% - 10.90%
Punjab National Bank	8.65% - 9.60%	8.60% - 9.50%	8.60% - 9.50%
Punjab & Sind Bank	8.85% - 9.95%	8.85% - 9.95%	8.85% — 9.95%
State Bank of India	8.50%-10.15%	8.50% - 10.05%	8.50% - 10.05%
Union Bank of India	8.50%-10.75%	8.50% - 10.95%	8.50% - 10.95%
Bank of India	8.45% - 10.75%	8.45% - 10.75%	8.45% - 10.75%
UCO Bank	8.45% — 10.30%	8.45% — 10.30%	8.45% — 10.30%
Bank of Maharashtra	8.60%- 11.05%	8.60% - 11.05%	8.60% - 11.05%
Canara Bank	8.85%- 11.25%	8.75%- 11.25%	8.55%-11.15%
Indian Overseas Bank	8.85% onwards	8.85% onwards	8.85% onwards
Private banks			
Kotak Mahindra Bank	8.85% onwards	8.85% onwards	8.85% onwards
ICICI Bank	9.00% - 9.80%	9.00% - 9.95%	9.00% - 10.05%
Axis Bank	9.00% - 13.30%	9.00% - 13.30%	9.00%-9.40%
Karur Vysya Bank	9.23%- 12.13%	9.23%- 12.13%	9.23%- 12.13%
South Indian Bank	9.85% -12.60%	9.85% - 12.60%	9.85% - 12.60%
Karnataka Bank	8.75% - 10.43%	8.75%- 10.43%	8.75% - 10.43%
Federal Bank	10.15%- 10.20%	10.20% -10.25%	10.25% - 10.30%
Dhanlaxmi Bank	9.35% - 10.50%	9.35%- 10.50%	9.35% - 10.50%
Tamilnad Mercantile Bank	9.35% - 9.85%	9.35% - 9.85%	9.35% - 9.85%
Bandhan Bank	9.15%- 15.00%	9.15% - 13.32%	9.15% - 13.32%
RBL Bank	9.15%- 11.55%	9.10%-11 30%	9.10%-11.30%
Housing Finance Companies (HFCs)			
LIC Housing Finance	8.45% - 10.35%	8.45% - 10.55%	8.45% - 10.75%
HDFC Ltd.	8.50% - 10.35%	8.50 - 10.60%	8.5% - 10.70%
Tata capital Housing Finance	8.60% onwards	8.60% onwards	8.60% onwards
Bajaj Housing Finance	8.50% onwards	8.50% onwards	8.50% onwards
PNB Housing Finance	8.75% - 14.50%	8.75% - 11.50%	8.75% - 11.45%
Repco Home Finance	9.8% onwards	9.8% onwards	9.8% onwards
GIC Housing Finance	8.80% onwards	8.80% onwards	8.80% onwards
Indiabulls Housing Finance	8.75% onwards	8.75% onwards	8.75% onwards
Aditya Birla Capital	8.80% - 14.75%	8.80% - 14.75%	8.80% - 14.75%
ICICI Home Finance	9.20% onwards	9.20% onwards	9.20% onwards
Godrej Housing Finance	8.64% onwards	8.64% onwards	8.64% onwards
L&T Housing Finance	8.60% onwards	8.60% onwards	8.60% onwards
Foreign Banks			
HSBC	8.60% onwards	8.60% onwards	8.60% onwards
Standard Chartered	8.75% onwards	8.75% onwards	8.75% onwards

Source: https://www.paisabazaar.com/home-loan/interest-rates/

Office Segment

In India, the COVID 19 pandemic devastated lives and livelihoods across the development spectrum. But with economic growth gaining traction, the Indian office outlook is buoyant. The attractiveness of this sector stems from strong fundamentals and investment appeal because of sustained macroeconomic growth, elimination of the dreaded COVID 19 pandemic, global cues, and availability of more options.

In the aftermath of the COVID 19 pandemic hybrid work continues to be adopted as a flexible working model across industries and geographies - and the impact of decreased demand for office space, particularly among older properties, has brought into focus the disconcerting question- is this demise of the office?

The Indian office sector has, however, been acknowledged to have recovered the most quickly from the pandemic's wake. A JLL study suggests that the Grade A office market across the top seven cities is forecasted to grow over 1 billion sq. ft. in size by 2026.[24] A report[25] by Knight Frank says that the 1.05 million square meters that changed hands in Q1 2023 is an insignificant increase of 5 per cent YoY. In Q1 2023, the number of occupants in Mumbai grew by a big 132 per cent YoY. The three biggest markets made up 73 per cent of the area traded and saw growth from one year to the next. Flex rooms were still liked by tenants and made up 29 per cent of the space that was sold in Q1 2023. Flex space owners were especially busy in Bengaluru, where a large amount of space (about 50 per cent) was bought and sold by the sector. In all areas, rents stayed the same or went up. In the bigger business areas of Bengaluru, Mumbai, and NCR, rents went up by 5 per cent, 4 per cent, and 2 per cent, respectively, YoY. Now that the epidemic has almost completely receded, the larger economic dynamics of inflation and GDP growth are having a greater impact on the fortunes of office markets throughout the globe. The Indian office space market's resiliency is a reflection of the improved macro-economic conditions.

As per Colliers, after 2 years of slow demand for commercial offices, the year 2022 marked a historic high, with gross absorption almost touching 50 million sq feet (msf) that represented a 52 per cent rise in total leasing from last year.[26] According to a study by Colliers-FICCI, office leasing in India is projected to ramp up in the second half of 2023, and in a best-case situation, 35 to 38 msf of space will be rented out on a gross basis.[27]

The office space's gross absorption enjoyed an all-time high in the first quarter of 2022. The gross absorption stood at 13 msf, which is a massive three-fold increase YoY.[28] Despite strong demand for office space, seen during 2022, vacancy levels across the top 6 cities, i.e., Bangaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, and Pune, dropped by 190 basis points YoY, to 16.6 per cent, indicating strong recovery and stability in commercial office markets.[29]

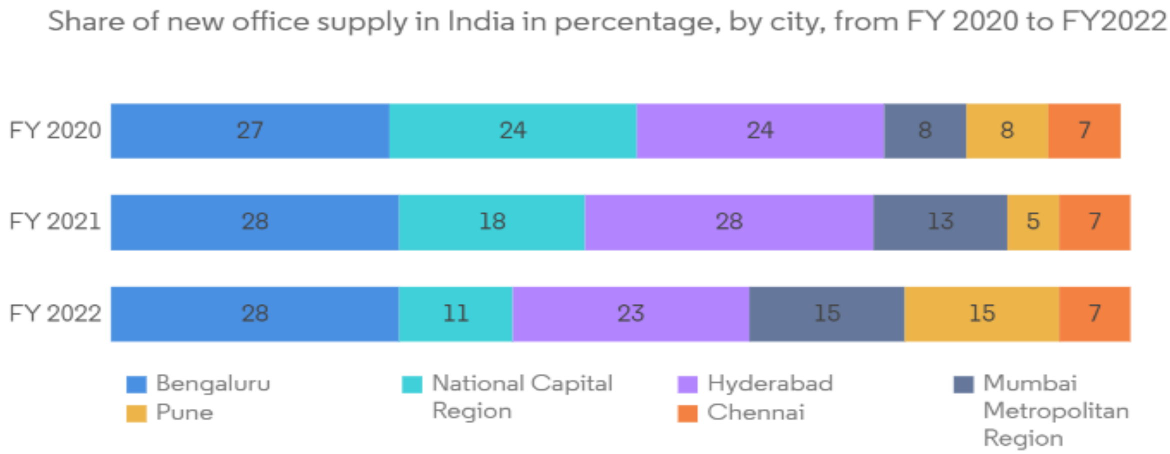
Table 2: Grade A gross absorption (msf)

City	2021	2022	YoY change
Bengaluru	9.8	16.2	67%
Chennai	2.8	4.6	64%
Delhi-NCR	6.3	10.8	72%
Hyderabad	5.9	6.5	10%
Mumbai	4.6	7.1	55%
Pune	3.6	5.1	42%
Total	33	50.3	53%

Source: Colliers 2023

From a supply standpoint, 2022 was a pivotal year. Developers' attention to project completion resulted in a 23 per cent increase, to 42.9 mn sq ft, as new supply.[30] Hyderabad and Bengaluru accounted for over half of the additional supply. To keep the market stable in terms of vacancies and rentals in 2023, builders will likely base their plans for existing and future developments on shifting demand patterns.

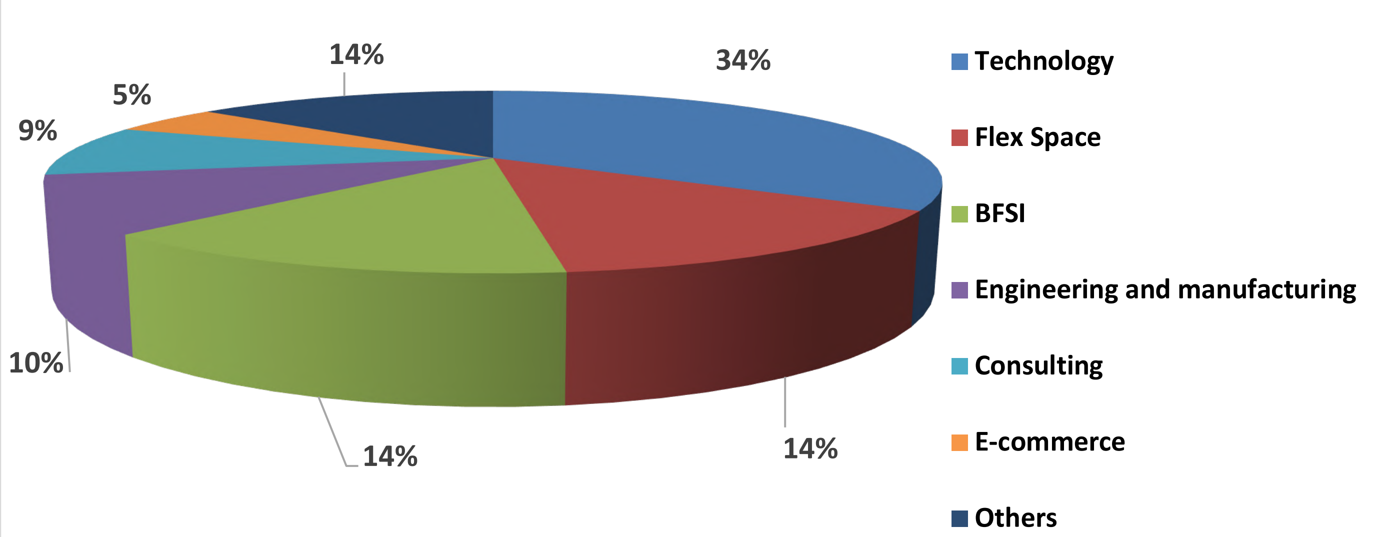
Figure 8: Share of new office supply in India in percentage, FY2020 – FY2022.



Source: Mordor Intelligence.

The co-working and co-living models in India provide a massive ₹ 1 lakh crore by 2023 economic potential for investors and builders by offering housing and working spaces, which foster cohesion, creativity, and social connections (FICCI 2019 report)[31]. Delhi-NCR recorded a growth of over 72 per cent from the previous year. North India is witnessing greater activity from flex operators even in tier 2 towns, apart from Delhi-NCR.

Figure 9: Sectoral Share of Indian Office Sector in Indian Real Estate.



Source: Colliers 2023

Indian Real Estate Industry at an Inflexion Point

High and sustained economic growth, rising disposable incomes, double incomes, double income no kids (DINKS), decreasing household sizes and the thrust on infrastructure make it necessary to foster growth both in residential and commercial spaces. In view of the marked shift in market dynamics in the interaction of the demand and supply side, lack of sufficient institutional credit and the absence of adequate funding from private equity players for small and mid-sized developers, there is a manifest need for the Indian realty sector to focus on a unified view of marketing, economics, learning, and innovation. Here the issues of affordability, diversification and delivery assume significance for sustained upswing.

With globalization gaining momentum both in terms of speed and scale, mapping and segmentation of the market, identification of segment-wise financial needs, development of new, innovative loan products, strengthening institutional credit delivery mechanism, upgrading market infrastructure and changes in legal and regulatory systems are needed for inclusive housing finance to emerge as a vital component of the financial inclusion movement. At the organizational level, a practice-based perspective of using multiple scenario analysis to map the competitive future impacting volatility, sectoral balance and returns would also help to foster sound and sturdy growth of the RES and advance the pursuit of excellence.

Government Initiatives

The Government has an active and essential role to play in the socio-economic setting of the nation. And, as was demonstrated by the pandemic, there is no way the government could or indeed should abdicate this role and rely solely, or even principally on market forces for robust development of the real estate industry in India. There is a manifest need to examine the impact of policy initiatives and changes in real estate encompassing the impact of financial deregulation, privatization, functions and working of banks and financial institutions, balanced regional development, standards of living and promotion of disruptive and incremental innovation. Government measures like tax holidays for affordable housing projects, tax deduction on interest on housing loans in the Union Budget augur well for the industry. Further, the interest rates on home loans, and festival offers are likely to act as an incentive for prospective buyers.

The Amrit Kaal's residential, retail, commercial, and hospitality markets are poised for a healthy expansion thanks to an improving business climate and rising demand for office space and urban and semi-urban lodging. The upsurge may be attributed to a variety of causes, including rapid urbanization, the increasing prevalence of nuclear families, rising income levels among the population, the entry of new real estate developers into the sector, and the availability of funding alternatives for both developers and house purchasers. The Government has provided many solutions for such investors in terms of funding and has come up with various initiatives along the way, such as the real estate Regulation and Development Act (RERA), Real estate Investment Trust (REIT), Smart City Mission, Pradhan Mantri Awaas Yojana (PMAY), Make in India, and Pradhan Mantri Jan Arogya Yojana (PMJAY). These initiatives focus on Environmental, Social and Governance (ESG) framework built into the system.

Real Estate Regulation and Development Act (RERA)

RERA has introduced transparency to the formerly opaque real estate market by bringing the previously unorganized real estate sector within the purview of the regulator and holding the developer, builder, promoter, and agents responsible for their actions. As a result of this, customers and investors alike now have more faith in the company. Under the Act, state governments are required to notify their own rules under the Act, since the model rules are framed under the Central Act. Around 70 percent of the money that allottees pay will be placed in a different bank account by RERA. This is to cover the costs of building and buying land for a real estate project. RERA also has a fast-track conflict settlement system built in to help customers with their problems. The Adjudication Officer, RERA and Real Estate Appellate Tribunal are responsible for handling complaints within the time limit set by RERA.[32]

Table 3: RERA Benefits to Stakeholders			
Industry	Developer	Buyer	Agents
Governance and transparency	Common and best practices	Significant buyers' protection	Consolidation of sector (due to mandatory state registration)
Project efficiency and robust project delivery	Increase efficiency	Quality products and timely delivery	Increased transparency
Standardization and quality	Consolidation of sector	Balanced agreements and treatment	Increased efficiency
Enhance confidence of investors	Corporate branding	Transparency – sale based on carpet area	Minimum litigation by adopting best practices
Attract higher investments and PE funding	Higher investment	Safety of money and transparency on utilization	
Regulated Environment	Increase in organized funding		
Source: Housing.com			

In addition to helping homebuyers of stalled projects, the government established the Special Window for Completion of Affordable and Mid-Income Housing (SWAMIH) investment fund, which funds stalled projects registered under RERA, including those that have been declared NPAs (Non-performing assets) or are pending proceedings before the National Company Law Tribunal[33]. As of 17th March 2023, 310 proposals aggregating to ₹ 31,145 crore approved under SWAMIH, benefiting around 1,91,367 homebuyers, and unblocking projects worth ₹ 83,188 crore.[34]

The Digital India Land Records Modernization Programme (DILRMP)

The process of acquiring, registering, and transferring land will be streamlined via digitization, making it more efficient, transparent, and cost-effective. The Digital India Land Records Modernization Programme (DILRMP) was initiated in 2016 with the primary goals of digitization of land records, the reduction of land disputes, and the promotion of transparency in land-related activities.

The Ministry of Rural Development reported that as of September 2021, about 90 per cent of land records were digitized across India.[35] The Indian government's efforts to digitize land records have extended to the National Generic Document Registration System (NGDRS), an initiative, which is launched in August 2020. This was to provide one Nation one software for registration of documents & properties to 'empower citizens', Department developed and field-tested NGDRS through NIC/NICSI under the broad aegis of DILRMP.

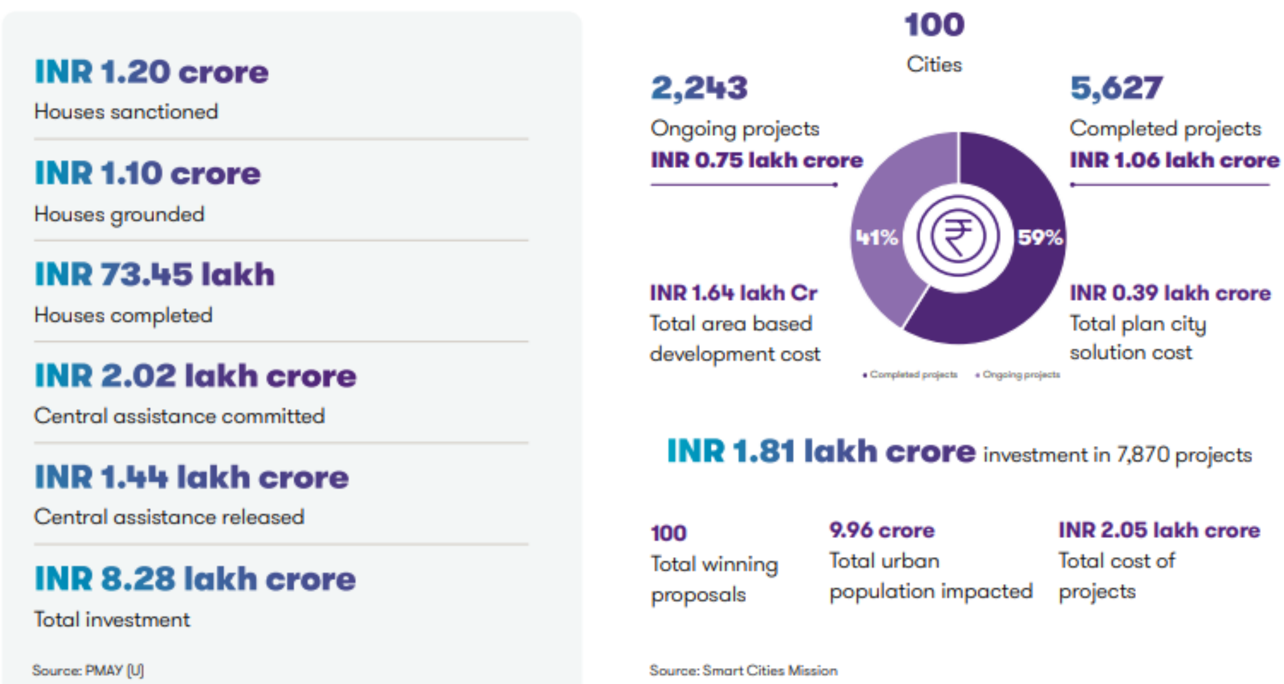
Further, there will be a dramatic change in the perception of customers and investors of the sector as a whole as a result of developers' increasing commitment to green construction practices. Artificial intelligence (AI) and robots will usher in a radical new way of thinking about the mechanisms of designing green buildings and achieving economies of scale.

Smart City Mission

The mission of "smart cities" is to encourage the development of urban areas that apply "Smart" solutions to provide basic services, a high standard of living for their residents, a healthy and an environmentally friendly setting. The smart city projects aim to establish 100 smart cities across India. The mission had a deadline of June 2023, which has now been extended to the same time next year.[36]

The Government on 31st May 2023 approved the City Investments to Innovate, Integrate and Sustain (CITIIS) 2.0, that seeks to support projects promoting a circular economy with focus on integrated urban management, information, and broadcasting.[37] In 2018, CITIIS 1.0 was launched jointly by the Ministry of Housing and Urban Affairs, the French Development Agency (AFD), European Union (EU), and the National Institute of Urban Affairs (NIUA), with a total outlay of ₹ 933 crore.[38] The funding for CITIIS 2.0 would include a loan of ₹ 1,760 crores (EUR 200 million) with AFD and Kreditanstalt für Wiederaufbau (KfW) contributing 100 million Euros each and a technical assistance grant of ₹ 106 crore (EUR 12 million) from the EU.[39]

Figure 10: Smart City Mission



Real Estate Investment Trust (REIT)

Real estate investment trusts ("REITs") allow individuals to invest in large-scale, income-producing real estate. A REIT is a company that owns and typically operates income-producing real estate or related assets.[40] In 2014, SEBI created REITs as a way for buyers to get money to buy, own, and run real estate assets that bring in money directly or through special purpose entities. REITs are traded on public stock exchanges, are highly controlled, and give owners a steady return on their money. With the help of REITs, developers were able to sell real estate assets that brought in money and use the money to build more properties.

In March 2023, the government had proposed a bill (approved by Lok Sabha) to soften the tax impact on Real estate investment trusts (REITs) and Infrastructure investment trusts (InVITs) through amendments to the Finance Bill 2023.[41]

National Infrastructure Pipeline

In Budget 2023-2024 the government had planned to significantly enhance their capital expenditure by 33 per cent, which makes up to 3.3 per cent of GDP.[42] Outlay for PMAY was increased by 66 per cent as the ministry will spend ₹ 79,000 crore in the current year.[43] In 2023, the government announced the setting up of an urban infrastructure development fund (UIDF), which will be established through use of priority sector lending shortfall. A total of ₹ 10,000 crore per annum is expected to be available for this purpose. It will be established on the lines of the Rural Infrastructure Development Fund (RIDF).

Similarly, in 2019, the government established an Affordable Housing Fund (AHF) at the National Housing Bank with an initial corpus of ₹ 10,000 crores to finance HFCs using priority sector loan shortfalls from banks and financial institutions. This was managed by the National Housing Bank, which was used by government agencies to build infrastructure in tier 2 and tier 3 cities.[44]

Pradhan Mantri Awaas Yojana (PMAY)

PMAY is a government scheme that provides lower-income, economically weaker-segment, and middle-income consumers with affordable housing. Also, the deadline for the Pradhan Mantri Awaas Yojana (PMAY) has now been extended to 2025.[45]As of November 2022, more than 1.20 crore houses have been sanctioned under PMAY.[46]
To achieve the target of "Housing for All" in rural areas, the Ministry of Rural Development is implementing Pradhan Mantri Awaas Yojana - Gramin (PMAY-G) with effect from 1st April 2016 to provide assistance to construct 2.95 crore pucca houses with basic amenities by March 2024. Out of the overall target of 2.95 crore houses under PMAY-G, a target of 2.94 crore houses has already been allocated to States/Union Territories (UTs), out of which 2.85 crore houses have already been sanctioned to the beneficiaries by various States/UTs and 2.18 crore houses have been completed as on 11th March 2023.[47]

National Land Monetization Corporation

In 2022, the Government set up the National Land Monetization Corporation to monetize non-core real estate assets held by public sector enterprises.[48]

Industry Risk/Challenges

It is of great importance for investors, developers, and partakers in the industry to conduct thorough research, due diligence, and risk assessments before making any investment or business decisions. At the national, state, and municipal levels in India, different regulatory and policy shifts are now being implemented that may influence the real estate industry. These changes significantly influence taxation policies and regulatory approvals generating uncertainty and undermining the profitability of real estate projects.

The rising inventory of houses is a function of not just the unemployment rate but also depends on the speed and outcome of the foreclosure process and on the efficacy of official interventions. With a renewed thrust on economic growth and structural transformation, the prospect for the real estate industry seems upbeat. This aspect is also reflected in the increasing housing price index.

The themes of the ripple effects of hybrid work on the way we live, work, and shop; the resulting impact on demand for office, residential, and retail space in cities; and how urban stakeholders can adapt to the new reality have an important bearing on the growth of the real estate sector in India, as indeed elsewhere. Debilities and disruptive effects of the commercial real estate market can endanger financial stability because of the inter-linkages and inter-dependencies of this sector with the broader macro-economy necessitating greater caution and effective macro-prudential policy to mitigate systemic risks. The Indian real estate market has historically exhibited cyclical behavior, with periods of high demand, price increases, and building activity followed by periods of slowness and price corrections. The state of the economy, interest rates, inflation rates, and consumer sentiment are some factors that impact market volatility. Investors are obligated to conduct an exhaustive analysis of the current market circumstances and make projections on the likelihood of price and demand shifts in the real estate market.

The real estate business is susceptible to considerable risks associated with access to funding and liquidity. Funding for projects comes from a variety of outside sources, including bank loans, NBFCs (Non-banking financial companies), private equity, and consumer advances. Buyers and developers also depend on these outside sources. The availability of money might be reduced, which will negatively influence not only project completion but also sales. Bank credit for commercial real estate remains uncertain. Since the real estate sector is a capital-intensive industry, it faces a liquidity crunch emanating largely from banks' cautious approach to financing real estate companies. This approach has been reflected in lower LTV ratios, construction-linked payment, and financing only for projects nearing completion. Further, real estate developers also had to cope with receivables from residential projects under construction getting blocked, falling demand, etc. A liquidity crisis in the financial system, tightening credit conditions, or rising interest rates could conceivably constrict the steady growth of the Indian real estate industry. Also, yields offered by REITs are now in the same range as bank fixed deposits, making REIT investments less attractive for investors.

In the Indian real estate industry, one of the most typical problems is delays in the completion of projects. Delays in projects may be caused by a variety of issues, including governmental permissions, disagreements over land acquisition, labor shortages, environmental clearances, and insufficient infrastructure. These delays may lead to cost overruns, a loss of trust among customers, and the possibility of legal challenges. The real estate sector, being cyclical and earlier being non-regulated, has had its own share of challenges. The sector has witnessed many cases of real estate developers and their underlying projects being stuck for various reasons. Real estate cases constitute a large part of the cases referred to or admitted into the Corporate Insolvency Resolution Process (CIRP) under Insolvency & Bankruptcy Code, 2016 (IBC/Code). The introduction of RERA has weeded out non-serious developers from the market, leaving only those who are committed to delivering projects on time and ensuring customer satisfaction. Legal complexity and title risks are inherent components of real estate transactions in India. Problems with ambiguous land titles, encroachments, litigation, and ownership rights conflicts may cause delays in the transaction of property, impair the profitability of the project, and perhaps result in financial losses for developers and investors. To adequately reduce the likelihood of adverse outcomes, it is essential to conduct comprehensive due diligence and legal verification of property titles.

There is a large surplus of real estate in many locations in India, notably in markets such as residential and commercial buildings. This problem is especially acute in the rental market. A surplus of unsold goods, low rental yields, and price stagnation may all be the outcomes of an oversupply. To prevent overexposure to regions that have an enormous inventory, developers and investors need to carefully study the market dynamics as well as any demand-supply mismatches.

Lastly, it is necessary for the expansion of real estate markets to see both the construction of suitable physical and social infrastructure. Inadequate transportation networks, a dearth of essential amenities, and a weak social infrastructure can all affect the real estate market and investment opportunities in particular areas. When evaluating potential real estate investments, investors should take into account both the availability of infrastructure and the quality of that infrastructure.

Crystal Ball Gazing

With the Covid-19 pandemic becoming history, the real estate industry has been doing well. Factors driving the growth of the real estate industry at the macro-level include significant upscaling of infrastructural facilities all along the line, secular changes in the Indian demographics, consumer spending and the economy in general, a type of rebound with India emerging as a bright spot in the global economy. There are also factors specific to the real estate sector, such as low interest rates, favorable government policies, revised circle rates in Delhi, more ready-to-live projects etc. Demand for all segments is expected to rise because property is considered to be relatively a safe asset class.

The Indian real estate sector can adapt to evolving market dynamics, meet the changing needs of buyers, and navigate the challenges while capitalizing on the growth opportunities in 2023. As Winston Churchill stressed decades ago, "this is no time for ease and comfort; it is the time to dare and endure." To leverage the exciting prospects ahead, the Indian real estate industry must focus on critical areas, such as, higher, and cost-effective technology, sustainable development, affordable housing, infrastructure development, and so on.

In 2023, the commercial real estate category, which includes office spaces, retail outlets, and storage, is poised to increase. Developers may profit from this trend by designing contemporary and adaptable commercial spaces to meet the transforming demands of companies. Adopting and even more importantly, adapting to trends, such as, co-working spaces and implementing technology-driven features may help to attract tenants and increase occupancy rates.

McKinsey[49] senior partners Daniele Chiarella[50] and Aditya Sanghvi[51], et al, detail six imperatives real estate investors and operators should adopt in order to be successful in the current market. These imperatives are:

1. Create solutions for clients, not just physical spaces.
2. Use developments to generate momentum, not merely to capture momentum.
3. Find value creation opportunities throughout a project's life cycle, not just at the end points.
4. Embrace sustainability as an opportunity, not a compliance process.
5. Embed digital solutions and advanced analytics in everything, not just by sporadically adopting individual solutions.
6. Focus on operating efficiency, not just on income.

While these imperatives have been stressed in the American context, it is obvious that these imperatives will continue to resonate in India also.
Customer-centricity will be a key driver of success in the real estate sector. Developers should focus on providing excellent customer experiences, including transparent transactions, timely project deliveries, efficient after-sales service, and regular communication. Leveraging technology for customer engagement and feedback mechanisms can further enhance the overall customer experience.
Continued adherence to regulatory norms, especially under RERA, will be crucial for the real estate sector. Developers should ensure compliance with regulations, maintain transparent practices, and provide accurate project information to buyers. Buyers, in turn, should be encouraged to verify project and developer credentials, fostering trust and transparency in the sector.

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