

REAL ESTATE

# A journey of resilience

Despite all the odds, the Indian realty sector has put up an impressive show



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As India celebrates its 75th year of independence, its real estate sector has also come a long way. The industry has played a crucial role in providing housing to its growing population, even as it is one of the key segments of the overall economy since it contributes around 7 per cent to the country's GDP. By 2030, the sector is expected to contribute around 10 per cent to the GDP, taking its market size to around \$1 trillion from the current \$200 billion. Importantly, the real estate sector, while providing one of the basic requirements ie housing, is also one of the major employment generators.

Over the last couple of decades, the Indian realty sector has undergone a sea change against the backdrop of economic liberalisation, with institutional players exploring the opportunities being presented. In 2005, the RBI's decision to allow 100 per cent FDI in real estate was arguably one of the most significant policy decisions by the Union government. This, along with other

policy measures led recently by RERA, has gone a long way to bringing some much needed transparency and depth to the entire setup.

"We have come a long way from where we were. From lacking transparency and being completely unorganised, the Indian real estate sector today looks much more organised. Entry of institutional money and large developers has revamped the whole market and home buyers are currently more assured and confident than ever before. As the country celebrates its 75th year of independence, we find the domestic real estate sector resilient and in a better place to start its next growth phase," says Ambar Maheshwari, CEO, Indiabulls Asset Management Co Ltd.

The government of India came out with Pradhan Mantri Awas Yojana in 2015 to address urban housing shortage among the EWS/LIG and MIG categories, including slum dwellers, by ensuring a pucca house to all eligible urban households by 2022, when the

nation completes 75 years of its independence. The mission provides central assistance to the implementing agencies through states/Union Territories and central nodal agencies for providing houses to all eligible families/beneficiaries against the validated demand for houses for about 1.12 crore people.

### Government initiatives

The Minister of State for Housing and Urban Affairs, Kaushal Kishore, recently informed the Lok Sabha that based on the project proposals submitted by states/UTs, a total of 122.69 lakh houses have been sanctioned during the mission period ie till 31 March 2022. Against the sanctioned houses, 102.23 lakh have been grounded for construction, of which 61.50 lakh are completed/delivered to beneficiaries. According to the minister, the government is also considering extending the scheme up to March 2024.

In 2020, the ministry of housing & urban affairs initiated Affordable



Rental Housing Complexes, a sub-scheme under Pradhan Mantri Awas Yojana, for providing ease of living to urban migrants/poor in the industrial sector as well as in the non-formal urban economy so they could get access to dignified, affordable rental housing close to their workplace. Earlier, in 2018, the government granted infrastructure status to affordable housing which enabled these projects to avail of the associated benefits such as lower borrowing rates, tax concessions and increased flow of foreign and private capital.

Experts believe that all these policy measures were intended to strengthen the government's commitment to help build more homes for the weaker section and bridge the gap between demand and supply. They are of the view that more such initiatives will be called for in order to address the severe shortage of affordable houses in the country.

"The government has been focused on the housing sector because of the multiplier effect it has on the economy. The sector has seen a plethora of reforms such as implementation of RERA, GST, etc. The CLSS schemes under the government's flagship project, PMAY have helped immensely to move towards the goal of 'Housing for All'. The government also announced a host of measures to support the real estate sector such as granting infrastructure status to affordable housing besides tax concessions to homebuyers and developers. The real estate sector has become structurally stronger over the years and is on an upcycle. The demand for housing will remain resilient going forward given rising income levels and relatively low interest rates," says Renu Sud Karnad, managing director, HDFC Ltd.

However, enumerating some of the challenges faced by the industry, she says that a critical challenge that needs addressing is how land cost can be reduced. Currently, only non-bank financial intermediaries and private equity funds are permitted to fund land transactions, which adds to the cost. "A long-standing recommendation is to allow banks and housing finance companies to fund land transactions, which would in turn help reduce the costs for homebuyers. A property-owning democracy gives more confidence to its



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citizens," she adds.

"The Indian real estate sector has metamorphosed significantly in the last decade, further accelerated by a slew of reformative steps taken by the central government. A new regulatory environment has been created with the implementation of various policies like RERA, GST, REITs, the Benami Transactions (Prohibition) Amendment Act, 2016 and the PMAY, among others. These policies have brought in greater transparency and accountability, financial discipline, and increased efficiency in the sector. Most importantly, a spate of policy reforms and schemes for the affordable segment has resulted in increased new supply and demand in this category in the last five to six years," says Anuj Puri, Chairman, ANAROCK Group.

### Policy interventions

"The real estate sector will continue to play a key role in India's journey towards becoming a five trillion-dollar economy. Several structural reforms such as RERA and GST brought in by the government have restored buyer confidence by streamlining the sector and making it more transparent. These reforms have brought in some much-required discipline in the way business is done. It resulted in two things: essentially industry consolidation and better value for money for the end customer. It is a matter of pride that even through the worst pandemic, when every industry sector including

MSMEs and manufacturing took a hit, the real estate sector continued to contribute substantially to the Indian economy," states M Murali, CMD, Shriram Properties CMD.

"Real estate has always been a valuable asset. As the country celebrates its 75<sup>th</sup> year of independence, real estate in India has also embarked on a significant journey. The sector has played a very crucial role in building blocks for an economy that is accelerating and providing employment opportunities. The 100 per cent FDI in real estate met the capital-intensive housing sector's massive funding needs. To provide a filip to the housing sector, schemes like the Affordable Rental Housing Complex Scheme, RERA, GST and the Benami Transactions Act were launched and implemented. All this, in turn, has boosted positive sentiments in the market," states Venkatesh Gopalakrishnan, CEO, Shapoorji Pallonji Real Estate.

Backed by these policy interventions in the last few years, the Indian real estate market has not only become more transparent but also gained in depth. The market looks more matured and broad-based with the emergence of new sub-asset classes both within residential (co-living, student housing and senior living) and commercial (co-working, logistics, industrial, and data centres) segments. Not only are institutional investors finding the market more favourable and attractive but for retail investors too, there are now avenues, in terms of REITs and fractional ownership,



to invest in commercial properties. In fact, REIT is a game changer for the Indian real estate industry. SEBI came up with REIT regulations in 2014.

Foreign investors are betting big on this reformed market scenario. During 2017-21, foreign capital flows in real estate jumped three times to \$24 billion as compared to the preceding five-year period, as per a Colliers report: 'Foreign Investments in Indian Real Estate Turn a Corner' released in association with FICCI. Over the last five years, global investors have shown an increased inclination towards investment in Indian real estate, buoyed by the regulatory reforms introduced in 2016. Foreign investors, who had previously refrained from investing in the Indian real estate market due to lack of transparency, started investing in the country with greater optimism in 2017. The share of foreign investments in Indian real estate has grown to 82 per cent during 2017-2021, compared to 37 per cent in the preceding five-year period. During the period, alternative assets saw an inflow of about \$1 billion, with a majority of this coming during the pandemic years, says the report.

A large chunk of institutional money has gone into commercial real estate, particularly office space. Retail and hospitality segments of the value chain have also attracted investments. More recently, the industrial and logistics sector has attracted a lot of attention from foreign and domestic investors. In 2021, the most sought-after asset class in the real estate space was industrial and logistics, with investments reaching a five-year high of \$1.1 billion, a five-fold increase from 2020. Data centres are another emerging area which have seen increased activity. As of January 2022, the country witnessed a 5.5-time year-on-year growth in PE investments in data centres, to \$2.2 billion from \$396 million in 2020, as per a Knight Frank India report.

"In the last 75 years, India has witnessed exponential development and growth. We are currently witnessing the transformation from a roti-kapada-makaan ideology to aspirational and global Indian businesses. The real estate sector continues to play a critical role in the development economy.

The commercial real estate sector including office, warehousing and data centres absorbs nearly 100 million sq ft annually. We are likely to see sales of over 3,20,000 residential units in 2022," says Sanjay Dutt, Managing Director and CEO of Tata Realty & Infrastructure.

While the last decade, in particular, has been quite eventful for the Indian real estate sector, stakeholders are of the view there is a need to streamline the entire approval process, as this has affected the overall development process. "While the government has been on the right track to boost the real estate sector, some additional initiatives such as single window clearances and input tax credit reinstatement are needed. The government could also introduce a labour welfare scheme which would include medical, nutrition and monitoring mechanisms, to avoid disruptions by the labour workforce," avers S Vadudevan, CMD-Ozone Group.

### Positive impact

"One of the most poignant steps was the enactment and enforcement of RERA in 2016 which paved the way for transparency and accountability in the sector. This brought in better corporate governance standards in the sector. It sought to protect the rights of homebuyers, a redressal mechanism which was virtually non-existent till now. However, on the flipside, over the decades while each successive government has focussed on affordable housing, there has been little progress, with much left to be desired. The sheer magnitude of demand for affordable housing and the tight unit cost economics have been challenges in attaining the desired level of success," says Ramesh Nair, CEO, India and MD, Market Development, Asia at Colliers.

As per Murali of Shriram Properties, while the reforms introduced by the government in the real estate sector have had a positive impact, with the sector witnessing significant growth, it would be a win-win situation for developers, buyers as well as the government if there is further impetus on the affordable housing sector. Some initiatives that the government might consider to realise the Prime Minister's dream of housing for all, include reducing the tax burden on affordable

housing, reinstating input tax credit and removing stamp duty for affordable housing. These measures will encourage more people to consider affordable housing, which would significantly contribute to the economy.

"The Indian housing sector has remained largely resilient despite significant policy changes. However, despite a vibrant housing sector, a few issues must be addressed simultaneously to maintain the growth momentum. As an increasing number of urban people are looking for homes, this is expected to add to the pressure on the existing infrastructure, which needs to be upgraded. Additionally, as we move forward to a more cautious business landscape, incorporating ESG into the heart of the planning process should be integrated throughout the lifecycle of the projects for a sustainable future," says Anshuman Magazine, Chairman & CEO, India, South-East Asia, Middle East & Africa, CBRE.

"Despite the improvements of transparency, customer demand increase for homes and consolidation towards larger listed and trusted developers, the environment remains challenging today in our sector. The single biggest challenge faced by developers remains the GST – starting with the removal of input tax credit on construction cost since 2019, and the recent overnight increase in the applicable GST on construction of affordable housing (from 12 per cent to 18 per cent). The lack of predictability in the regulatory environment has a negative impact on our industry due to the long gestation period of the product cycle," says Pavitra Shankar, executive director, Brigade Enterprises.

Despite being faced with these challenges, the Indian realty sector has, no doubt, shown a great deal of grit and determination. During Covid, the industry exhibited an exemplary resilience and that clearly shows the kind of maturity and depth it has gained over the years. With all the major policy interventions led by RERA, the industry is today much better placed than it was and is ready to commence its next growth phase in a more effective manner. ♦

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