

Indian Real Estate Industry Analysis

The Indian real estate sector is considered as one of the most important economic barometers for consumer and business confidence. It is the second largest employment generator and hence important for the overall economic performance and achievement of social objectives. For the last nearly a decade, the sector has been going through a major churn due to slow down after overheating, problems of quality and fragmentation, and then a regulatory overhaul that saw many landmark reforms executed to formalize and professionalize the sector.

The sector encompasses various segments such as Residential, Commercial, Office, Commercial, Retail, Social Infrastructure (Schools, Hospitals), Hospitality, Industrial & Logistics, and Emerging Segments including Data Centres, Co-living, Co-working etc. Combined these segments make real estate sector contribute nearly 7% to India's Gross Domestic Product (GDP). The sector also indirectly contributes to the economy by creating demand for various industries including steel, cement, tiles, furniture, furnishings, electrical equipment and appliances, construction machinery, etc.

India's real estate market is expected to touch \$1 trillion by 2030 as demand for housing recovers from the 'setback' caused by the first and second waves of the COVID-19 pandemic. Rising demand for housing and reforms of the past many years such as the Real Estate (Regulation and Development) Act, the Model Tenancy Act and steps taken by government to facilitate doing business in India will drive the market. RERA has transformed real estate and changed the perception of the sector. About more than 67,000 real estate projects and over 52,000 property agents are registered under RERA. On the ease of doing business, India has made significant improvement on the parameter of construction permits and has risen in the rankings to 27 from 186 earlier. The Government has allowed permission for construction to be given online, which will help to eliminate delays and corrupt practices.

Market size of real estate industry

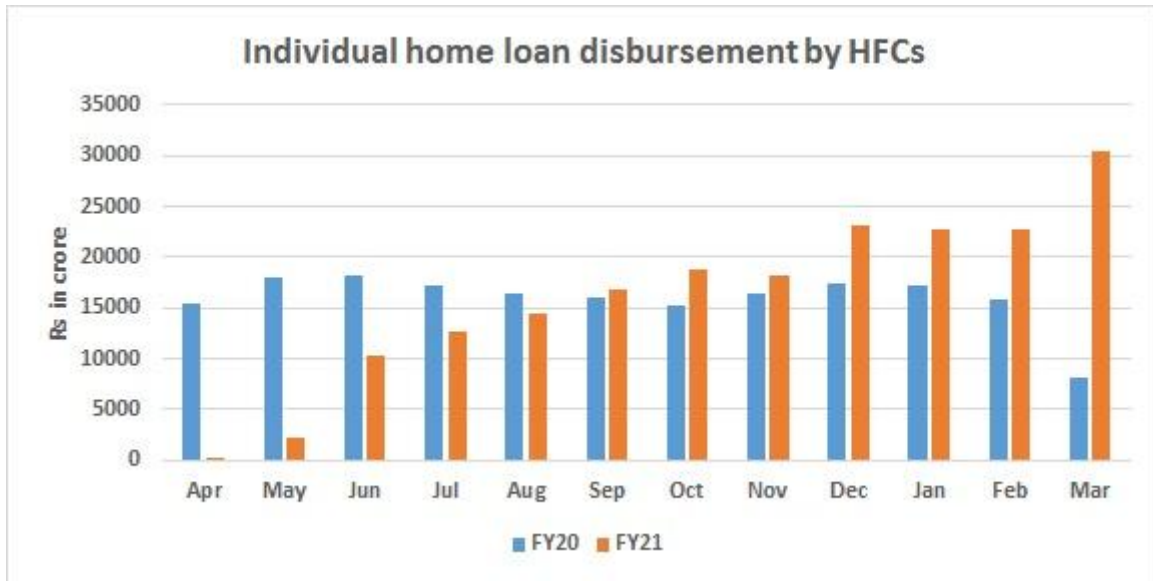
With continuance of low home loan interest rates, high demand for home ownership is translating into high sales volume. Residential launches have started gaining momentum. This positive performance has been reflecting in the stakeholder outlook for the residential real estate segment since the past few quarters. Also, real estate's contribution in GDP is supported by increasing industrial activity, improving income level and urbanization. The market size of Indian real estate sector was \$172 billion in 2019 and is estimated to grow to \$650 billion by 2025 and beat \$850 billion by 2028 to touch \$1 trillion by 2030.



Individual home loan disbursement by HFCs

Housing Finance Companies (HFCs) have emerged as important intermediaries in India's financial system and play a crucial role in providing financial assistance to the housing segment. The Covid-19 pandemic has impacted all the sectors domestically including HFCs. However, the Reserve Bank of India and the Government took calibrated measures to facilitate the flow of funds to the sector and to restore the overall financial stability.

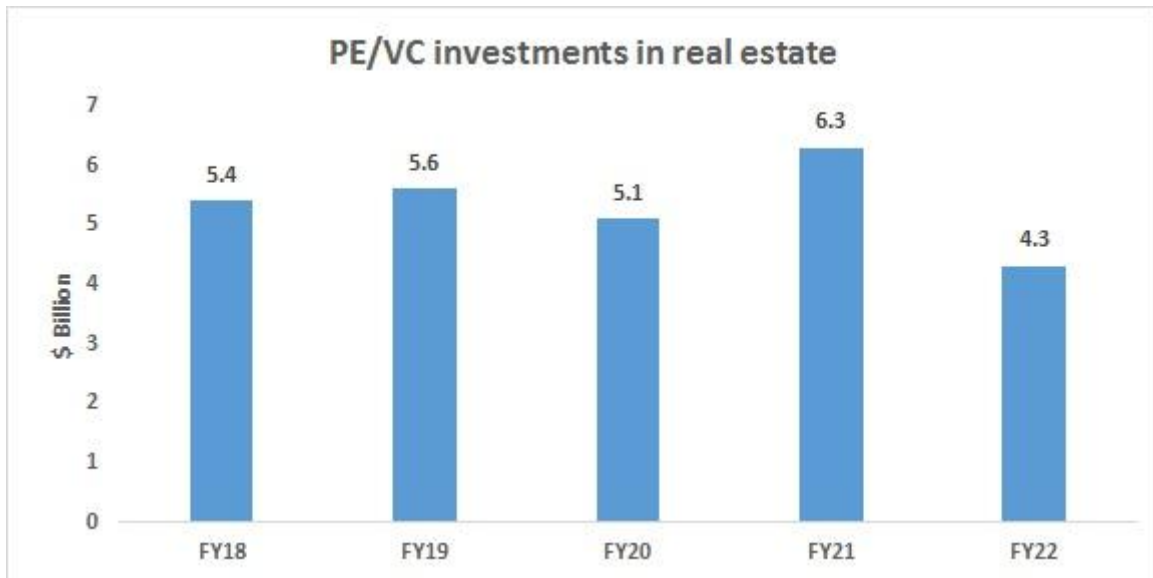
The month-on-month loan disbursements by HFCs from September 2021 onwards showed that the disbursements were higher than the same period of the last year due to easing of lockdown, and quick turnaround in individual home loan disbursements. HFCs registered a growth of around 4-fold to Rs 30356 crore in March 2021 against Rs 8161 crore for the same month in the previous year.



PE/VC investments in realty sector

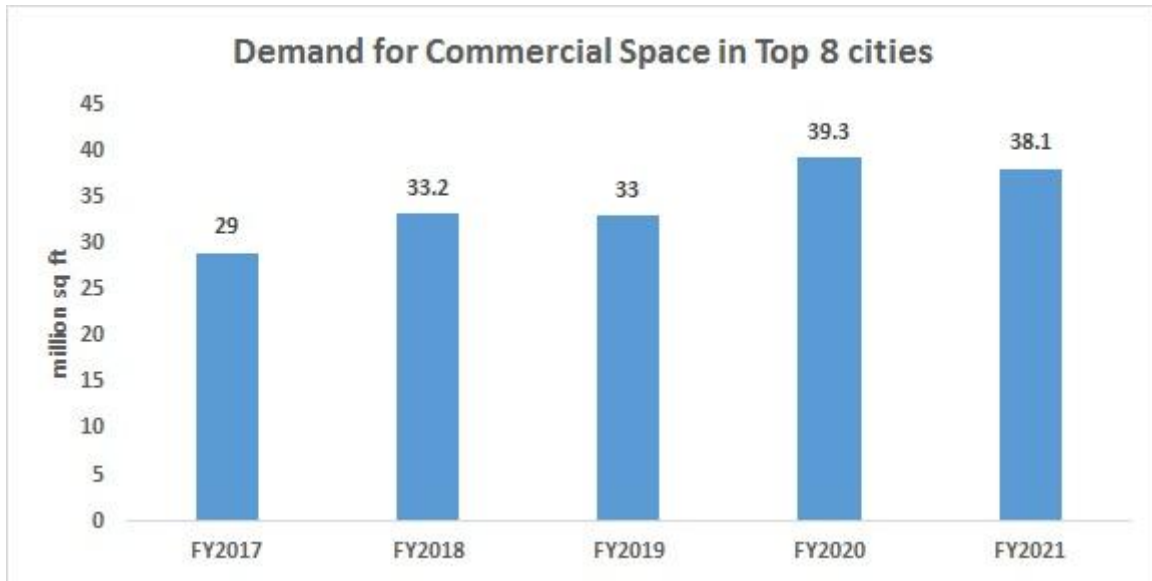
RBI has allowed banks to invest in real estate investment trusts (REITs) and infrastructure investment trusts, attracting more institutional investors to such assets. Indian Banks, which are allowed to invest about 20% of their net-owned funds in equity-linked mutual funds, venture capital funds and stocks, could invest in these trusts within this limit. PE/VC as an asset class does well in larger economies, and as the Indian economy grows bigger, PE/VC investments are expected to grow at a disproportionately faster pace. Supported by favorable government policies and a long-term investment outlook, many marquee investors including sovereign and pension funds are continuing to invest in trusts. Investors are benefiting from receiving regular cash distributions, stable yield and opportunities for sponsor to expand their asset base.

In FY21 PE-VC investment inflows into the real estate sector in India stood at \$6.3 billion on the back of foreign investors funds as they were eyeing realty as long term yield generating sector. Also, improved market dynamics across key property markets of the country boosted domestic private equity firm's confidence in real estate investments. However, in FY22 PV/VC investments declined by 31.75% to \$4.3 billion as compared to previous year, on fear of geopolitical tension impacting the global economy on large.



Demand for commercial space declines in FY21

The commercial real estate market in India is anticipated to grow at a CAGR of approximately 13% during forecast period (2022-2027). In the office/commercial segment, the gross leasing of office space fell to 38.1 million square feet in FY2021, from 39.4 million square feet in the previous year, due to the adverse impact of the second wave of the covid pandemic. However, retail and hospitality are also growing significantly in the commercial real estate market, providing the much-needed infrastructure for India's growing needs. India's commercial real estate sector is projected to be accelerated by large-scale investments by institutional investors in the coming years.



Housing prices rose 11% in Q4 FY22

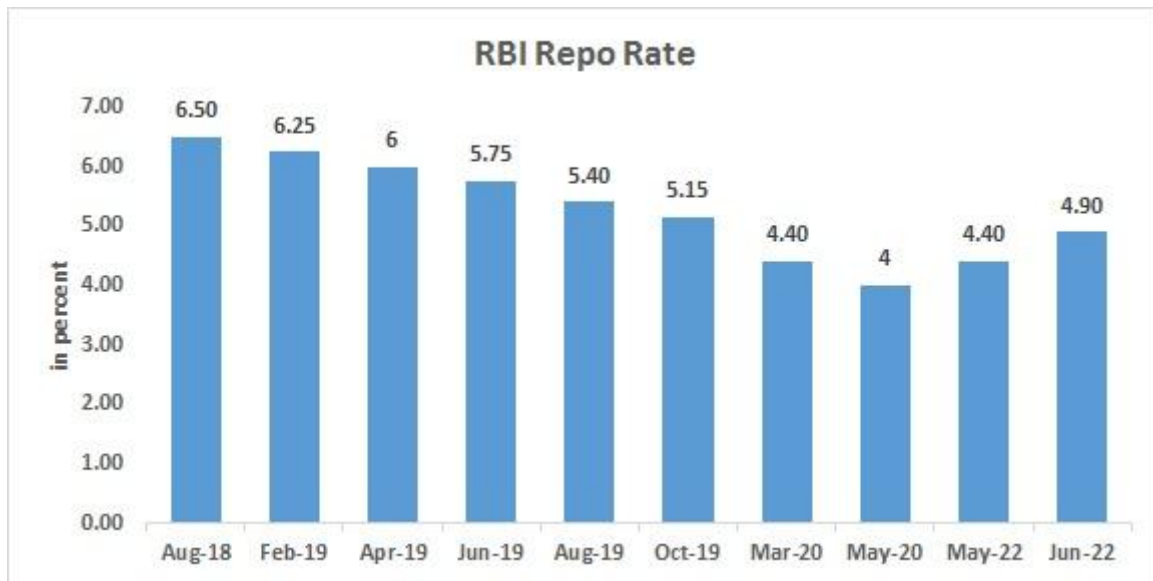
Housing prices increased by up to 11 per cent annually across eight major cities during January-March period of 2022 (Q4 FY22) due to a rise in demand for residential properties and a sharp hike in rates of construction raw materials. Delhi-NCR witnessed highest rise in housing prices by 11 per cent to Rs 7,363 per sq ft during January-March 2022 as compared to the year-ago period. Hyderabad witnessed 9 per cent increase in housing prices to Rs 9,232 per square feet, while Ahmedabad saw a 8 per cent appreciation to Rs 5,721 per square feet and Kolkata 6 per cent to Rs 6,245 per square feet. In Pune, prices of residential properties went up by 3 per cent to Rs 7,485 per square feet. Housing prices in Bengaluru, Chennai, and Mumbai Metropolitan Region (MMR) rose by 1 per cent each at Rs 7,595, Rs 7,107, and Rs 19,557 per square foot, respectively.

Increase in housing demand across most cities and skyrocketing prices of raw materials for almost two years, led to YoY increase in housing prices, surpassing pre-COVID levels across metro cities. 'January-March quarter 2022 witnessed the new launches back to the pre-Covid level. The coming quarters may see an increase flow of new launches. The fresh supply will induce an improvement in volumes. Thus, the sales will continue to grow despite the recent increase in the interest rates.

Hike in repo rate to increase home loan rate

The RBI's decision to hike the benchmark interest rate will make home loans costlier and affect housing sales, especially in affordable and mid-income segments. RBI has increased the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points (bps) to 4.90 per cent in its June 2022 bi-monthly meeting. The move is expected to tackle inflation that has gone beyond the tolerance level. Rise in repo rate will prompt the banks to increase home loans rates which will probable impact homebuyers negatively. Rising interest rate along with elevated property construction cost and product price pressures could adversely impact on the real estate. Banks have already raised the interest rate on home loan by 30-40 bps since the earlier repo rate hike by the RBI in May.

With an aim to cushion the impact of lockdown, RBI had slashed the repo rate by 75 basis points to 4.40 per cent in March 2020 from 5.15 per cent. On May 22, 2020, RBI again cut the repo rate by 40 basis points and brought it down to 4 per cent. Thereafter, it maintained status-quo in the benchmark interest rate for almost two years before increasing it on May 2022.



Government initiatives

Allocation of Rs 48,000 crore under Pradhan Mantri Awas Yojana

In Budget 2022, government has allocated an outlay of Rs 48,000 crore under the Pradhan Mantri Awas Yojana (PMAY). This will facilitate allocation of housing project of 80 lakh people under PM Awas Yojana, both rural and urban. The Government will also work with the state governments for reduction of time required for all land and construction related approvals, for promoting affordable housing for middle class and Economically Weaker Sections in urban areas.

Smart Cities tenders out 6,721 projects

As on January 2022, Smart Cities have tendered out 6,721 projects worth Rs 1,88,507 crore; work orders have been issued in 6,124 projects worth Rs 1,62,908 crore; 3,421 projects worth Rs 58,735 crore have been completed. As on January 2022, Government of India has released Rs 28,413.60 crore for 100 Smart Cities, out of which Rs 23,668.27 crore (83%) has been utilized.

Economically weaker sections can avail benefit of PMAY-U

Schemes related to housing for Economically Weaker Section (EWS) including slum dwellers are being implemented by State/ Union Territories (UTs). However, Ministry of Housing and Urban Affairs is supplementing the efforts of State/ UTs by providing Central Assistance under Pradhan Mantri Awas Yojana - Urban (PMAY-U) for construction of houses for all eligible families/ beneficiaries. Eligible beneficiaries including slum dwellers can avail the benefit of PMAY-U through any of the four verticals i.e. Beneficiary-led Construction, Affordable House in Partnership, In-Situ Slum Redevelopment and Credit Linked Subsidy Scheme.

Government creates special window for affordable and mid income housing investment fund

Various measures have been taken by the Government to protect the interest of homebuyers from time to time. RERA ensures to protect the interest of homebuyers by regulating and promoting in Real Estate Sector in a transparent and accountable manner. RERA provides for compulsory deposit of seventy percent of amount realised for real estate project from allottees in a separate bank account to cover the cost of construction and land cost. RERA also, inter alia, makes the promoter liable for refund of amount, with interest and compensation, in case developer fails to complete or is unable to give possession of apartment, plot, building to homebuyer; as per the terms of the agreement for sale. In order to provide last mile funding to stalled real estate projects which are net-worth positive and registered under RERA, Government has created Special Window for Affordable and Mid Income Housing (SWAMIH) Investment Fund of Rs 25,000 crore has been created.

Govt launches affordable rental housing complexes to provide dignified living to urban migrants

The Ministry of Housing and Urban Affairs (MoHUA) has launched Affordable Rental Housing Complexes (ARHCs) as a sub-scheme of Pradhan Mantri Awas Yojana - Urban (PMAY-U) to provide dignified living to urban migrants/ poor near their workplace. This scheme is being implemented through two models as under- Model-1: Utilizing existing Government funded vacant houses constructed under Jawaharlal Nehru National Urban Renewal Mission (JnNURM) and Rajiv Awas Yojana (RAY) to convert into ARHCs through Public Private Partnership (PPP) or by Public Agencies and Model-2: Construction, Operation & Maintenance of ARHCs by Public/ Private Entities on their own available vacant land.

Corporate developments

- Shriram Properties has entered into a Memorandum of Understanding (MoU) with LOGOS, an Asia-Pacific logistic specialist, for a potential sale of up to 90 acres of land in Shriram Grand City at Uttarpara, Kolkata, which will be developed into a Warehousing and Logistics Park by LOGOS.

- Godrej Properties has extended its existing arrangements with Shivam Realty to develop a residential group housing project at Kandivali, East in Mumbai. The new project will have an estimated booking value potential of approximately Rs 1,000 crore.
- Macrotech Developers has signed multiple joint development agreements (JDAs) with land owners to construct real estate projects, with an estimated sales revenue potential of Rs 15,000 crore in FY22, as part of its strategy to expand its business operations amid rising demand of residential properties.
- Godrej Properties along with its wholly owned subsidiary -- Godrej Projects Development -- has acquired 100% issued and paid-up share capital of Ashank Land & Building (ALBPL).
- DLF to invest around Rs 2,000 crore to construct two new shopping malls in Gurugram and Goa, as it sees huge growth potential in organised retail with opening up of the economy after significant reduction in COVID-19 cases.
- Brigade Group has forayed into the plotted development space with a 66-acre residential project in Devanahalli on the Satellite Town Ring Road (STRR). The project is a strategic Joint Development that will offer plot sizes ranging from 1,200 square feet to 2,400 square feet and will be an excellent proposition for buyers.
- Ajmera Realty and Infra India is developing the next phase of its residential project in Wadala, part of the 100 acres master layout of Ajmera i-land in Mumbai.

Outlook

Indian real estate sector is likely to see growth in near-term aided by government incentives for country's economic development as India is expected to show tremendous growth in coming years. Further, the government's move to spend Rs 48,000 crore for PMAY will have a strong positive impact on the real estate sector. Developers will be able to offer new projects in the upcoming cities - boosting the regional, social and economic infrastructure and creating new jobs. The HFCs sector is positioned attractively in the coming years driven by strong demand, especially in the affordable housing sector. However, on the concern side, increased repo rate by the RBI to tackle the inflation will be further increase in interest rate for homebuyers. This aggressive rate hike coupled with the expectation of further rise in coming time will increase the home loan interest significantly.