CUSHMAN & WAKEFIELD

Confederation of Indian Industry

"A Report on Real Estate Development and Housing Technology"



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Foreword

Dear Friends

Today, Indian construction and real estate industry has carved a niche of its own in developing and designing some of the finest buildings and projects, which are well acclaimed across the globe. This is a clear testimony of India's thought leadership and expertise in real estate sector. Excellent policy impetus from the Government is further propelling the sector to scale greater and greener heights. This at the same time is offering significant growth opportunities to the stakeholders and in the process enabling them to forge vibrant partnership- both at the national and international level.

Rapid urbanisation across the country has further triggered demand for more residential, commercial spaces and infrastructure projects. Focus on smart and green cities is offering the sector to design more 'out of the box' models, which are ecologically superior and economically viable. Adopting green building concepts and approaches is one of the hallmarks of Indian construction sector and this augurs well for facilitating a greener and healthier India.

Today, India stands no: 2 in the world in terms of largest registered green building footprint, with over 5,000 projects adopting CII's Indian Green Building Council (IGBC) rating systems. All these trends are indeed promising and augurs well for the spread and growth of the real estate sector. The growth potential of this sector is immense and is waiting to be tapped. With about 70 to 80 % of the India of 2030 is yet to be built, Indian construction sector is in for promising times. In days to come, we should design all the upcoming projects as green by design. Concerted efforts by all the stakeholders will further drive the momentum and pave way for new growth trajectories.

As you run through this insightful report, you will get an flavour of how the real estate sector has progressed well and, in the process playing a catalytic role in nation– building and designing path breaking projects and structures, worth emulating by others across the globe.

We invite you to partner with CII in building a greener and healthier India.

Regards



Amit Gossain

Chairman, CII Committee for Real Estate &
Building Technology & Managing Director
KONE Elevators India Pvt. Ltd.

Preface

Dear reader,

The Indian real estate sector is passing through interesting times. With policy reforms paving the way for a progressive future, a conducive real estate landscape in India is taking shape. A lot has been done in efficiently structuring the way real estate is financed, built and managed. Government policy makers have put concerted efforts to bring in the necessary catalysts through several noteworthy reforms such as RERA, GST, Insolvency & Bankruptcy Code, etc. in the past few quarters. Pathbreaking initiatives as these have not only offered a structure to the real estate sector, but also have reaffirmed the rising interest of local and global real estate investors.

While the reforms have been accepted favorably, the recent liquidity crunch by NBFCs has marginally impacted project deliveries. Launches / completion schedules of under-construction projects are facing delays due to financial shortages. However, there is positive sentiment observed, with non-resident Indians spurring buying activity, owing to greater transparency in the market. As I see, the future from here would unlock even more opportunities for FDI, private equity, and debt players, to foray into the industry. Not to forget, ambitious schemes / projects rolled out by the government, such as Housing for All, smart cities etc. will lead to increased foreign participation for the fulfillment of these schemes.

The focus on rejuvenation of existing cities and development of new urban centers also adds to building a holistic real estate portfolio in India, bringing it closer to accepted global standards. As per 'Report on Trend and Progress of Housing in India' by the National Housing Bank, nearly 40% of the population would live in the urban areas by 2030. To meet these goals, efforts will be invested in reducing overall project costs through use of innovative construction technologies and value engineering (standardizing design), especially in the case of affordable housing. The credit linked subsidy scheme went great strides in realizing the dream of owning a home within reach, for the economically weaker sections. In addition, by applying infrastructure status to affordable housing, the burden on developers has lightened from a monetary front. Liquidity can be tapped through many avenues, be it foreign portfolio investors (FPIs), foreign venture capital investors (FVCI), or external commercial borrowings (ECB). The last 3 years saw apartment completions of around 730,000 - 775,000 units, and project launches have increased notably in 2018, which ascertain the outcome of these promising decisions.

With more impetus on building eco-friendly structures, the concept of green buildings is becoming more popular. Schemes that encourage sustainability, such as the Indian Renewable Energy Development Agency (IREDA) scheme, have been introduced by the Government. The effectiveness of these schemes lies in subsidizing capital for installation of solar water heaters, encouraging of energy audits and management schemes, making use of fly ash-based construction material mandatory, actively promoting groundwater and rain water harvesting, and most importantly, monitoring of air and water pollution. Such developments will involve usage of methods and systems to save consumption of water and power, in addition to ensuring enhanced ventilation through the usage of natural light, solar panels, sewerage treatment plant, organic waste converter, or rain water harvesting.

India's dynamic and fast-growing real estate market is switching gears for the better.



Anshul Jain

Country Head & Managing Director
Cushman & Wakefield India



Introduction

India's real estate sector has witnessed to multiple paradigms which have brought about a transformative change to the sector. Largely driven by structural reforms enabled through landmark policies, we are in the midst of winds of change which are changing the very landscape of the real estate business and its practices. Short-term headwinds like demonetisation followed by implementation of RERA and GST have had a seminal effect on the way business is conducted with far-reaching ramifications of consolidation, fiscal prudence, corporate governance and accountability and disclosure norms in the sector which were hitherto unheard of.

The last two years have also been very instructive in the way the sector is shaping up. Developers have taken conscious decisions of revamping their operations, adhering to regulations and aligning themselves to efficient business practices. A change is coming and is surely taking on wings. In this context, while we continue to see policy interventions being introduced, the implications for different stakeholders are varied in nature. As is usual in creating an effective policy, there is a process of evolution that usually ends up refining the rules to conform to the needs of all stakeholders.

We have already seen this in the case of RERA, where the role of the regulator is already morphing into that of a mediator to ensure that there is an effective resolution which takes into consideration the pains of both buyers as well as developers to enable a just decision. The Act continues to be refined in its interpretation and coverage under the Act is increasing steadily, indicative of the fact that it has been accepted as part of the new way of doing business. GST is still an act in progress with real estate not covered fully under it and clarity is still sought on the treatment of certain real estate line items such as tax applicability on TDRs. There is also a larger discussion needed on the GST tax slab applicable on real estate, subsuming of local levies such as stamp duty, and reducing the tax incidence on input materials to allow for increasing affordability even as the residential sector struggles to shrug off its sluggishness.

The government's Housing For All policy has shown healthy progress with incentives to push demand through credit subsidy schemes for EWS, LIG, and even first-time homebuyers in the MIG categories, but there are still gaps around local state level enforcement to push the agenda by making land accessible, and aiding the public-private partnership models for greater success towards achieving the goal. The government has pushed for affordable housing by providing tax breaks, lower GST and infrastructure status, but the debate over home sizes versus ticket size is something to ponder upon.
We look at the timeline of major regulations/policy decisions that have been implemented over the last five years, coinciding with the incumbent government's tenure.



Feb 2012 — External Commercial Borrowing (ECB) has been allowed for affordable and low-cost housing

Sep 2013 — The Land Acquisition, Rehabilitation and Resettlement bill, 2013

Jun 2015 — Housing for All by 2022 – PMAY Mission launched. A Credit-linked subsidy (CLSS) to weaker and low income sections introduced.

Feb 2016 — 100% tax deduction in profits for affordable housing construction allowed
Exemption of servvice tax on construction of affordable houses upto 60sqm.

Mar 2016 — RERA act passed by parliament

May 2016 — Insolvency and Bankruptcy Code (IBC) introduced

Nov 2016 — Demonetization

Dec 2016 — CLSS for MIG introduced for a period of 1 year

Feb 2017 — Infrastructure status given to affordable housing
Change in size requirements of houses from build up area to carpet area.
Change in holding period for long term capital gains revised to 2 years and base year for indexation shifted to 2001.
Extension of consideration period for tax on unoccupied houses.

May 2017 — RERA act came into force

July 2017 — GST came into force

Sep 2017 — CLSS for MIG extended for another 15 months

Nov 2017 — Carpet Area of houses for MIG under PMAY scheme increased

Feb 2018 — Dedicated Affordable Housing Fund (AHF) under National Housing Board announced

Aug 2018 — Amendments to IBC, Home buyers are given the status of financial creditors

Dec 2018 — Interest Subsidy Scheme on home loans for MIG extended

The government has given great impetus to the sector during this time and while implementation and debate around policies go on, there are enough indicators that inclusiveness forms a large part of policy creation, implementation, and refinement. This gives the sector hope that its recommendations shall find more resonance going forward as well.



Real Estate performance roundup

Commercial

The Indian real estate landscape has been a mixed colour palette over the last few years. While the commercial office sector has grown from strength to strength with strong space absorption, highlighting the country's continued dominance in the technology outsourcing sector, even as other industries have shown renewed faith in the country's growth story, especially in the new technology, e-commerce, analytics, financial services, consulting and manufacturing/industrial domains. The prominent technology hubs in the country continued to see more investments by developers who looked to create more quality office park developments to cater to the strong demand. India has also embraced the coworking phenomenon wholeheartedly, highlighting how the start-up culture and entrepreneurial setups have been gaining ground with the government doing its bit through its Start-up India, Digital India and Make in India initiatives.

The government's push on REITs and thereby promoting more foreign investment in the asset class has been praise-worthy as multiple rounds of modifications were made to the REIT rules following intense discussions with industry stakeholders. A few chinks around stamp duty rationalisation etc., remain but the groundwork has been laid out for the first REIT listing in 2019. While the office sector has been on an upward curve, with even private equity investments in this asset class clearly on a strong growth curve, the largest asset class in the country in terms of size and value – residential, has had a rough ride in the past few years. We look at some key highlights of the office market for 2018.

Demand for commercial space hits an all-time high of 48.1 million sf.

A record 15.6 million sf. of space was preleased, a strong 31% y-o-y growth

Captive Centers accounted for 26% of the total leasing during the year, as India emerges as a hub for Global Capability Centers mainly from the North American and European markets

Leasing activity in SEZs was 30% of the total 2018 volumes as occupiers looked to take advantage of the Sunset Clause

Bengaluru remains at the top with highest share in leasing activity. Hyderabad, which witnessed its highest leasing activity ever in 2018 is seeing demand rising at a frenetic pace, with no signs of slowing till at least 2020

Cities like Bengaluru, Pune, Hyderabad and Chennai continue to witness single digit vacancies, leading to faster rental growth in key office markets

Large deals (>100,000 sf) accounted for 57% of the total Grade A leasing during the year, from almost 50% share in 2017

IT-BPM sector continued to be the largest demand driver with a share of 33% in leasing activity

Coworking clocks nearly 5 million sf of space take-up (Grade A space only) breaking all previous records



Residential

It is well-documented that a mix of factors – policy changes, demonetisation, and tax rule modifications at a time of bearish buyer sentiment culminated in the lowest ever sales in nearly a decade in 2017. When some green shoots were visible during 2018 as the sector revamped its business practices and developers aligned themselves to new market and ground realities, the recent drying up of financing in the wake of the liquidity crisis faced by NBFCs halted or at least delayed the recovery for some time. There had been clear signs that developers have responded positively to government policy interventions as evidenced by rising RERA registrations, attempts at reducing the demand-supply mismatch by focusing on affordably priced housing and focusing on completing older projects while ensuring compliances and imbibing fiscally responsible business practices.

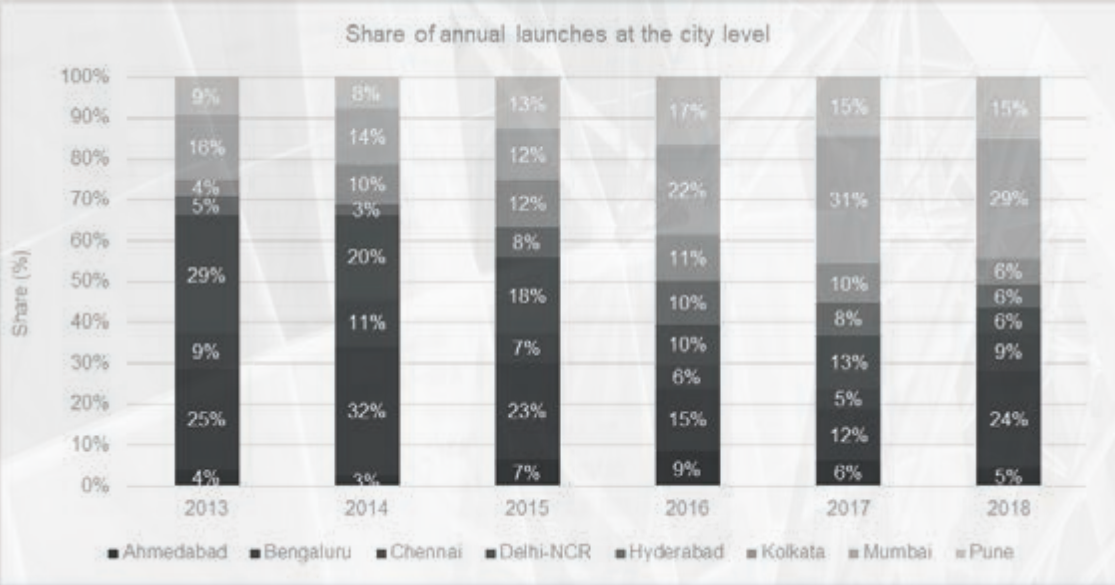
Driven by strong demand for affordable and mid-segment housing, the top 8 cities witnessed a substantial increase of about 65% in residential launches on an annual basis. Developers in Bengaluru, Mumbai, Chennai, Pune, and Kolkata focused on launching new projects with greater vigour as they bet on the festive period to push sales up during this period. While launch activity has recouped, it is still lower than the high levels seen in 2014 as developers focused on completing existing projects, while complying with RERA rules.

In 2018, the mid-segment category accounted for half of the total launches, with the affordable segment close on its heels. Developers are increasing their focus on the affordable segment aided by government incentives.

We look at the city-wise share of annual launches over the past few years. While the total launch numbers were spiraling down till 2017 which also marked the lowest point in eight years, RERA implementation has been a key factor in reviving the supply numbers in 2018. Over the years, the share of affordable housing is on the rise as developers tap into the growing sector.

As a result, the average apartment sizes in all major cities have undergone a reduction, as developers look to bridge the affordability gap by lowering the overall ticket size of the apartments. There has been an average reduction of around 15-18% in average apartment sizes from 2013 to 2018.

The share of annual launches at the city level:



Source: C&W Research

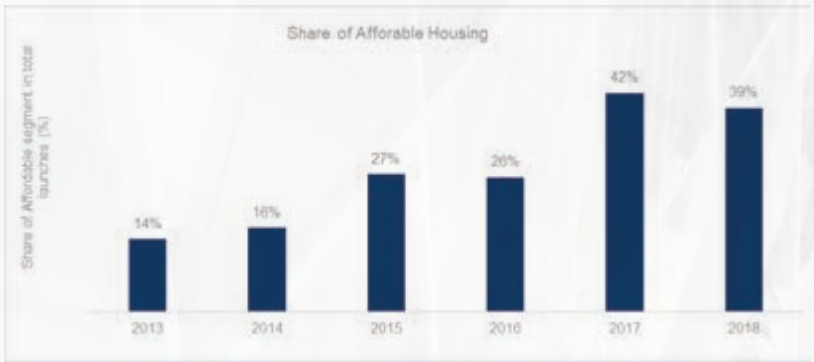
65%
Growth in launches
2018

17-20%
Growth in sales
2018

RERA driving launches in Mumbai and Pune Bengaluru and Hyderabad driven by strong office markets

30%
Share of Mumbai in launches during 2017 & 2018

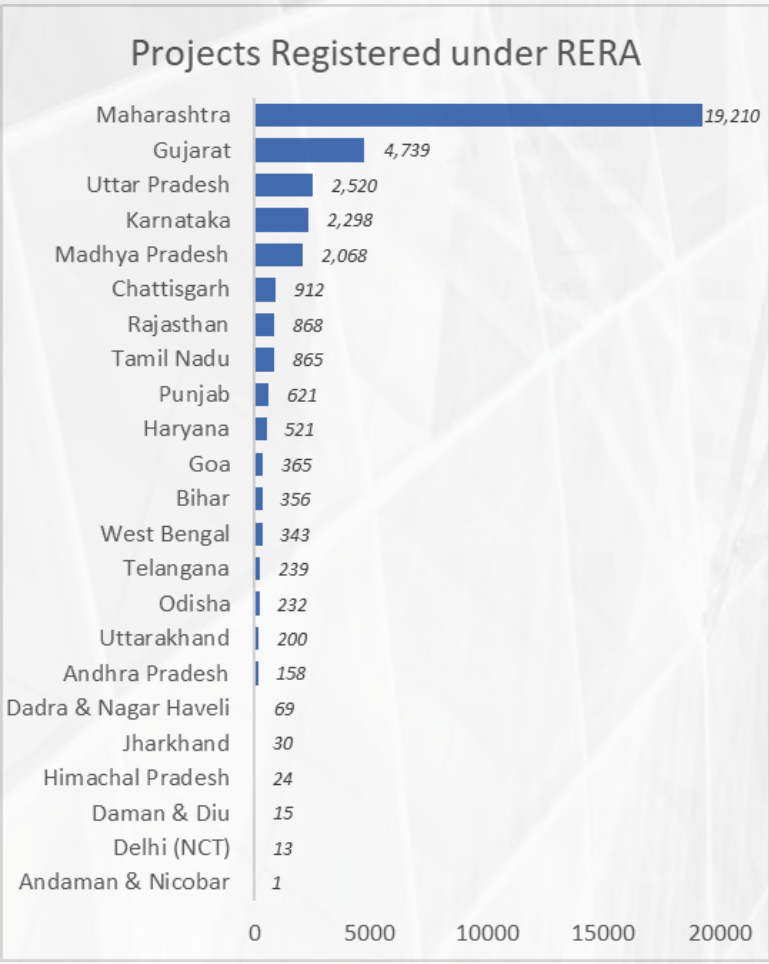
40%
Average share of affordable segment in launches during 2017-18



Source: C&W Research

RERA has been critical in reviving the property market during 2018. With more than 20 tribunals and 36,500+ projects registered (as shown in the graph below), it is moving in the right direction to bring transparency to the sector and instill confidence among buyers.

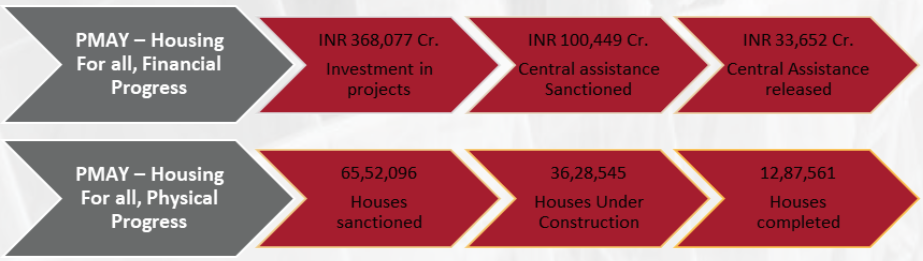
Project registrations under RERA



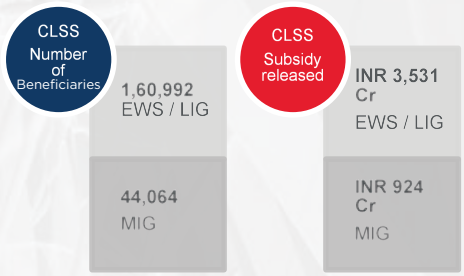
State	Status
Manipur	In Progress
Meghalaya	In Progress
Mizoram	In Progress
Nagaland	In Progress
Sikkim	In Progress

** Data as available as of Jan 20, 2019, Source: State RERA Websites, C& W Research*

The credit subsidy scheme under PMAY (Pradhan Mantri Awas Yojana) is also a government-led initiative that is helping promote home ownership. The extension of this scheme to first-time homebuyers in the pre-defined middle-income group is also positively inclined to both buyers as well as developers, and significantly large home sizes have been covered under this income category for availing the credit subsidies. Some of the key statistics on PMAY and CLSS (Credit Linked Subsidy Scheme) are as shown below.



*Data as available on Dec 2018, Source: Ministry of Housing and Urban Affairs & CW Research



*Data as available on July 2018, Source: National Housing Bank

A key point of discussion around promoting affordable housing has been the concern around infrastructure development around such project locations. A major focus area for most state governments is now centred around removing such connectivity bottlenecks, thereby expanding the city boundaries and making such far-flung areas easily accessible. Another key area of focus is likely to be the role of state governments in releasing lands to push the affordable housing agenda and ensure local bodies act as enablers for private sector participation. While the central government has introduced PPP models, the role of local stakeholders in laying the groundwork for true implementation and success assumes a greater significance.

Investment Trends

Institutional investments in the real estate sector hit an all-time peak in 2017. This was largely led by investments in core commercial assets while the residential sector continued to get its funding needs met by NBFCs where such funds were usually towards refinancing of older debt, fresh construction finance, or meeting last mile funding needs. NBFCs emerged as major lenders to the residential asset class even as banks virtually closed their doors on this sector. The year 2018 has exceeded USD 6 billion dollars in terms of institutional investments in real estate, despite the last quarter of the year witnessing a drying up of liquidity on account NBFCs holding back on new fund disbursals. We look at PE inflows, sectoral split in recent years and some highlights in private equity in real estate

The year 2018 has received USD 6.7 billion dollars in terms of institutional investments in real estate, despite the last quarter of the year witnessing a drying up of liquidity on account NBFCs holding back on new fund disbursals.

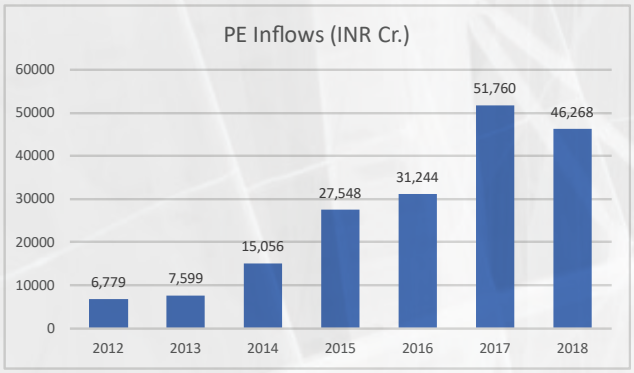
Retail is attractive with declining mall vacancy rates leading to heightened investor interest. Tier -II and III cities and opportunistic deals in larger cities are still being actively considered by institutional players.

Strategic project opportunities and platform partnerships driving investments in the retail and logistics/warehousing sector.

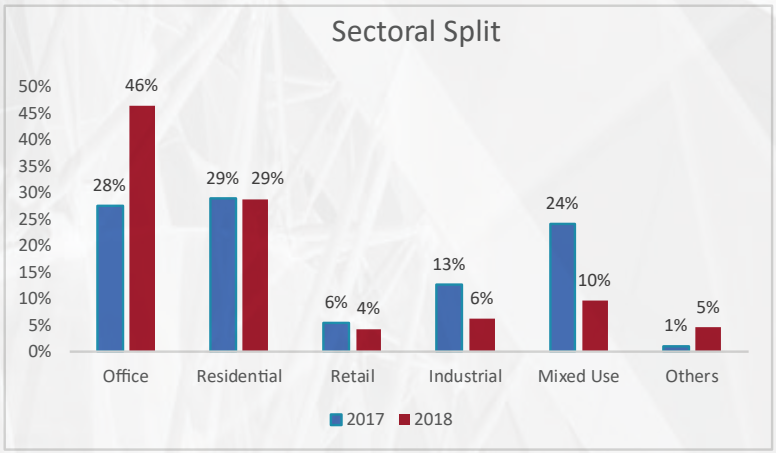
Hospitality is finding favour again with refinancing as well as picking up of equity stakes in key hotel assets across the country. The focus remains towards operational assets largely.

Mumbai bagged highest share of investments followed by Hyderabad, where greenfield office projects are in great demand.

PE inflows (annual)



Sectoral Split



Source: C&W Research

The IL&FS default precipitated a liquidity crisis as fund disbursals came to a halt and this fund crunch could halt the sector's recovery even as it creates an even further period of struggle for a large part of the developer community. While a relook of the NBFCs' lending norms is needed, there is also an urgent need to create a comprehensive funding line for the sector to ensure it continues to recover and regroup.

Focus on Sustainability and technology enhancements in the construction sector

Health, wellness, and sustainability are now critical goals around which the country's development agenda revolves around. Reducing carbon emissions, promoting sustainable habitats and giving its citizens a better quality of life, which means access to a better living environment and holistic ecosystem, are key parameters when planning for future development. A synergy is needed in terms of the sustainable development goals aligning with building codes and bye-laws even as benefits of such green and sustainable development are being promoted actively. Making such goals as mandatory rather than recommendation-based, while embarking on a comprehensive system of rating projects and developments on their carbon footprint and ensuring some subsidies or business benefits to participants who promote this actively, could be the way forward for pushing this agenda on a war footing for a country like India. Aligning of these goals when we are pushing the Smart Cities Mission and increased infrastructure spending could really push India into an age of inclusive and ecologically sustainable development even as the economic engine continues to chug along at a frenetic pace. Use and promotion of new construction technologies and aligning them with labour force upskilling initiatives while pushing locally developed materials and techniques and linking them to sustainability could be the final piece of the puzzle to push the sector into the new-age of nation-building. As we embark in the new year, there are expectations that the reform agenda will continue at its current momentum and certain outstanding issues and challenges shall be addressed as well.



In the subsequent sections, we shall aim to identify certain challenges/policy gaps that exist from the point of view of three key stakeholders – developers, buyers, and financial institutions. Each of them has voiced their opinions on issues that they feel could be addressed and may through that change enhance the impact of existing policies and regulations. These are in the nature of recommendations and should not be perceived as being critical in any manner of the broad-based reforms that the government has undertaken over the past half a decade or so.

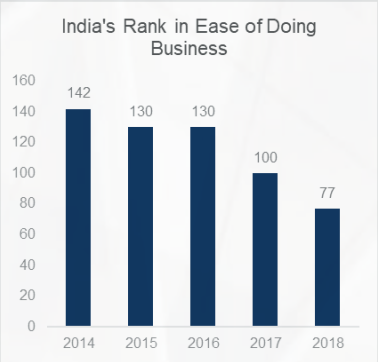
Developers

The developer community is a key pillar of the real estate sector which is the second largest employer in the country. Fulfilling demand across commercial, retail, residential, industrial/warehousing and other key asset classes, this key stakeholder requires a conducive business environment to flourish and grow. As part of this section, we look at certain challenges that real estate development companies may be subject to in the current scenario and then deep dive into the residential developer community which has been massively impacted by a wave of policy reforms and short-term shocks such as demonetisation. As developers continue to grapple with a multiplicity of laws and approvals at the national and local level, we aim to offer some recommendations from their perspective which may be considered across various announcements made by the government and which may help refine and resolve the prevailing concerns through policy interventions.

India's residential sector has been undergoing a period of prolonged sluggishness over the last few years. The sector seemed to have come out of the woods in 2018, but the NBFC crisis in the latter half of the year left the developers gasping for financial support. This poses an immediate challenge to steer the sector and pull out developers from the cycle of debt, low access to funding, and slow sales. This section outlines various challenges faced by developers and the policy recommendations required for the sector to grow further.

Doing Business in India

India has made rapid strides in World Bank's Ease of Doing Business rankings by implementing broad-based structural and procedural reforms. The GST implementation was also a major change that has changed the dynamics of India's taxation regime by subsuming multiple indirect taxes under a single tax. While India's upward movement on the rankings is laudable, there are still areas of improvement. Also, with other nations also pushing forward their own reform agenda, India needs to have policy continuation with a forward-looking agenda.



Source: World Bank – Ease of Doing Business, 2018

India is among top 10 performers for the second year in a row. Massive jump of 53 places over 2 years

Construction permits show signifcant improvement from 181 to 52

Significant improvement in key parameter such as starting a business and trading across borders

Needs improvement in registering property, paying taxes and protecting minority investors

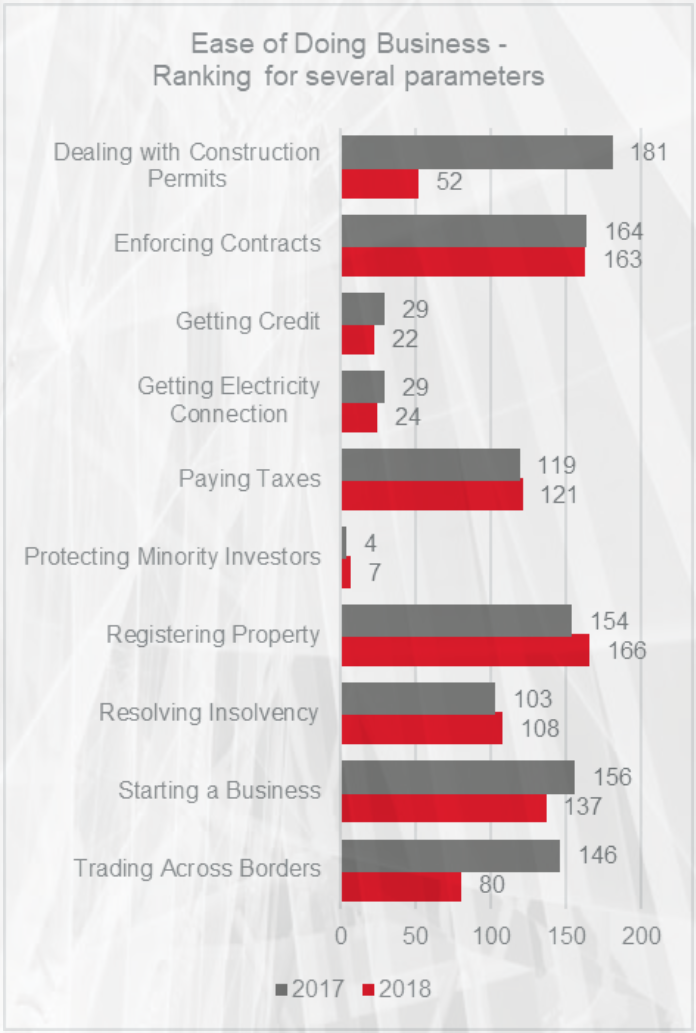
Key areas for improvement:

•**Starting a Business:** India has made starting up a new business faster by merging the applications for the Permanent Account Number (PAN) and the Taxpayer Identification Number (TIN) along with the incorporation process under the Ministry of Corporate Affair (MCA). However, it can still take several weeks to complete all the required procedures involved in a start-up, with fees and add-on costs dependent on the size and type of business being registered.

•**Registering A Property:** Registering Property is the sore spot in India's Key Performance Indicators (KPIs), with the process continuing to remain tedious and time-consuming.

•**Enforcing contracts, insolvency resolution and minority investor protection:** These are relevant from the point of view of attracting investments into the country and for conflict resolution, essential for smooth functioning of any business

We look at some outstanding issues which are directly connected to the developer community and seek to identify the areas of improvement and some recommendations to remain on the path of progressive policy creation and reforms.



Source: Ease of Doing Business report 2018



Ease of Doing Business

Current Status	Challenges	Proposed Reforms
India improved its ranking to 77 in World Bank's ease of doing business from 100	• Only Delhi and Mumbai were measured of KPIs	• Target all major metros in next phase to push for structural reforms under the rankings.
India's ranking is 166 in registering a property; down 12 spots from last year.	• The cost for registering properties is as high as 8.4% of the total property cost. • Inadequate usage of online platforms by government bodies adds additional delays to approval processes	• Cascading stamp duty slabs based on property rates till the time such costs are subsumed under GST as part of bringing real estate completely under GST • Mandate minimum allotment time for all state governments to reduce procedural delays for online process.
India's ranking is 137 in starting a business up from 156 last year. Indian states have introduced single window clearance system for key industries The standard corporate tax rate for domestic companies has been reduced from 30% to 25% for companies having gross turnover up to INR 5 billion.	• Starting a company can take a couple of months and getting construction permits can take several months. • Longer time is taken for approvals and license and lack of coordinated system for construction approvals makes it challenging for the developers to implement their projects on time. • Foreign investors face further difficulties due to tax regulations on import and export of goods which makes it difficult to conduct business. • The corporate tax stands at 40% for non-resident companies. Higher Corporate Tax rate reduces the profitability of the project floated by the non-residents. • Different rates apply to resident and non-resident companies.	• Reducing the compliance time for a wide variety of approvals for starting a business in India. • Issuing combined business startup license for new companies. • Introduction of single window clearance systems for more industries with time bound decision making for business approvals. • Introduction of coordinated clearance systems e.g. combining construction permits and other business-related approvals, to facilitate information exchange between various line departments and industry • Same tax rate for the Non-resident companies – who are starting business in India.

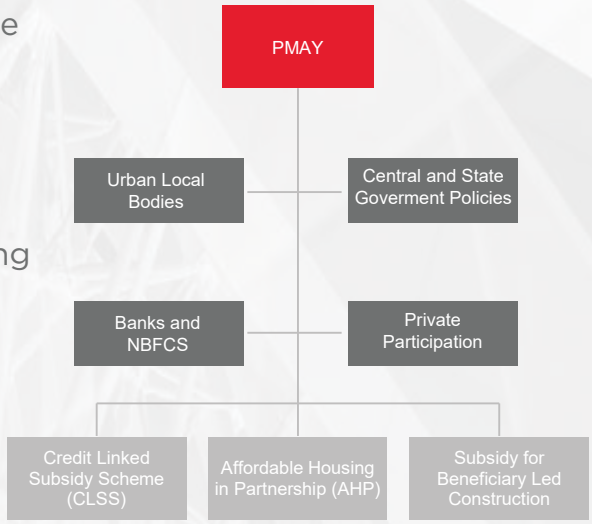


Current Status	Challenges	Proposed Reforms
India ranks 163 in enforcing contracts; rising from 164 last year	• Lack of arbitration tribunals in India and the delay in judicial process are key reasons for India's poor performance in the subject. Enforcement of contracts in India can take around 1445 days (Ease of Doing Business Index) during which 30% of the project value is lost.	• Improvement in country's arbitration laws to further encourage investors and giving push to quicker dispute resolutions • Implementing stringent laws for implementation of verdicts by arbitration tribunals • Measures to expedite the judicial process and pushing for an alternative dispute resolution mechanism could enhance contract enforcement.
India ranks 108 in resolving insolvency, down by 5 spots last year. IBC set up in 2016 to look in to recovery of assets from defaulting debtors. Under the revised IBC rolled out in 2018, 32 cases with claims of worth INR 89,402 cr have been resolved with claimed amount of INR 49,783 cr and additional recoveries of INR 20,969 cr through liquidation	• The minimum time for resolving insolvency is 180 days, which is too long. Business decisions can be manipulated or misused in the time. • High haircut on loans and interest payments is a major setback for lenders in some of the cases.	• Stronger enforcement mechanisms to reduce the decision and action time to 90 days or less. • Strict enforcement on speedy recovery of assets and capital, and liquidation of company • Push for asset reconstruction assistance and models to lenders/investors and developers for NPAs



PMAY making progress

Pradhan Mantri Awas Yojana (PMAY) is a beneficiary led initiative by the government to push for creation of the housing stock across the urban and rural parts of the country. The mission also aims to make housing affordable by providing credit subsidies to buyers. In addition, through other budgetary provisions, the government has also provided impetus to private developers to produce affordably priced units by giving them tax breaks and other incentives, thereby attempting to resolving the supply-demand mismatch by pushing for creation of the housing stock that targets the largest share of the housing need pyramid. Under PMAY-Urban, there is a target construction of 2 Crore homes by 2022, enabled by financial assistance envisaged to be of over INR 2 Trillion. Till 2018, more than 2 Lakh beneficiaries have availed of a scheme under the umbrella of the PMAY.



Incentive-based push to Affordable Housing

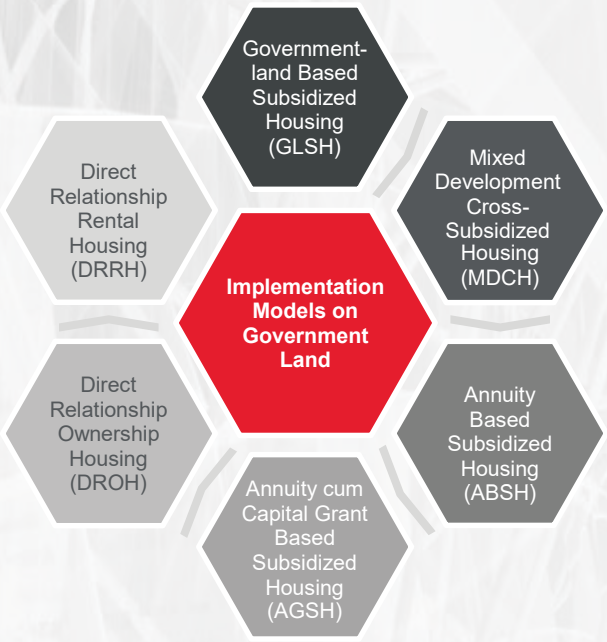
- **Providing infrastructure status to affordable housing** has set into motion easier access to structured capital for this sector.
- **100% deduction of profits for housing projects** providing houses up to 30 square metres (in carpet area) within municipal limits of four metro cities (Chennai, Delhi, Kolkata and Mumbai) and 60 square metres (in carpet area) for all other locations (approved during June 2016 to March 2019, and completed within five years of the approval)

CLSS Scheme	Eligibility (Household Income)	Carpet Area(Max)	Interest Subsidy (%)	Eligible Loan	Loan Tenure
EWS	Up to INR 3 Lakhs	Up to 30 sqm	6.50%	INR. 6 Lakhs	20 Years
LIG	INR 3-6 Lakhs	Up to 60 sqm	6.50%	INR 6 Lakhs	20 years
MIG 1	INR 6-12 Lakhs	Up to 160 sqm	4.00%	INR 9 Lakhs	20 years
MIG 2	INR 12-18 Lakhs	Up to 200 sqm	3.00%	INR 12Lakhs	20 years

PPP Models – private sector participation needed for the success of PMAY

The PPP models created by the central government focus on reducing the cost of availing land for Affordable Housing under PMAY by providing unutilized/underutilized parcels of government land within the city. Under the different models, the government transfers development rights to the developer, and provides capital for developing the land. The central government also aids the buyers through direct cash subsidy on the cost of housing units and the government reduces the overall cost of the project by extending infrastructure status to the developer, and adding financial incentives like exemptions on stamp duties and GST through State/Public Authorities, apart from providing subsidized loan to the buyers through Central Nodal Agencies.





Comparison of PPP Models:

Parameters	GLSH	MDCH	ABSH	AGSH	DROH	DRRH
Land Provision	Public Authority	Public Authority	Public Authority	Public Authority	Public Authority	Public Authority
Lease Period	30 to 99 years	30 to 99 years	30 to 99 years	30 to 99 years	30 to 99 years	30 to 99 years
Contract Period	2 to 4 years	2 to 4 years	15-20 years	15-20 years	15-20 years	15-20 years
Bid Parameter	Per unit cost	No. of Units	Per Unit Cost	Lowest Annuity	Per Unit Cost	Per Unit Cost
Offtake Responsibility	Public Authority	Public Authority	Public Authority	Public Authority	Private Partner	Private Partner
Designing and Developing	Private Partner	Private Partner	Private Partner	Private Partner	Private Partner	Private Partner
O&M	Beneficiaries	Beneficiaries	Private Partner	Private Partner	Private Partner	Private Partner
Distribution	PP to PA	PP to PA	PP to PA	PP to PA	PA to Beneficiaries	PA to Beneficiaries
Development Mix	Affordable	Affordable and High-end	Affordable	Affordable	Affordable	Affordable
Financing	Private Partner	Private Partner	Private Partner	Private Partner and Public Authority	Private Partner	Private Partner
Recovery by Developer	Lump sum amount	Revenue generated from high-end housing	Long term annuity	Upfront grant and annuity	Beneficiaries pay lump sum of EMI	Beneficiaries pay monthly rent
Cross Subsidy for Developer	NA	Land for high-end housing	NA	NA	NA	NA
Offtake related performance bonus	10-15% subject to the total number of units sold	10-15% subject to the total number of units sold	10-15% subject to the total number of units sold	10-15% subject to the total number of units sold	NA	NA

Source: Ministry of Housing & Urban Affairs, Cushman & Wakefield Research



Comparison of Models for Affordable Housing on Private Land:

PRIVATE LAND BASED SUBSIDISED HOUSING CLSS	PRIVATE LAND BASED SUBSIDIZED HOUSING AHP
Benefits of CLSS extended to EWS/LIG/MIG	Additional INR 1.5 Lacs per unit assistance given to Public Authority by Central Government as direct cash subsidy in return for creating affordable housing programme only for EWS and LIG with minimum 35% to EWS.

• The two models on private lands are proposed for development carried out in partnership through the Affordable Housing in Partnership (AHP) or the Credit-Linked Subsidy Scheme (CLSS).
• The PPP models do not suggest any policy suggestions or reforms regarding construction methodologies to create efficiency gains in Construction and Operations although they add financial incentives for use of prefab technologies.
• The government also has not outlined the role of banks, NBFCs in lending money for PMAY projects or portions of PMAY-approved projects.
• The relief through tax exemptions is provided on creation of minimum 35% of EWS housing units.
• The PPP models are proposed to enhance access to low-cost lands in areas with ample infrastructure. Since most of the housing inventory is added by private developers, the PPP housing models on private land extend project incentives to developers for timely execution and completion of the project, and further incentivize the buyers to generate adequate demand – thus, meeting both the demand and supply side.



Affordability

Current Status	Challenges	Proposed Reforms
The government defines affordable housing according to area (30 sqm and 60 sqm) and for MIG I and II (for 160 and 200 sqm)	• Affordability as a concept is different from affordable housing definition. • There is a need to address the 'affordability' issue which currently does not factor in the ticket size conundrum	• Standardize affordable housing definitions based on ticket sizes, where various characteristics such as size of city, land prices can be used to define the criteria which calculate the ticket size eligible for tax incentives for developers.
PMAY eligibility criteria for EWS and LIG are set as INR 3 Lakhs and INR 6 Lakhs.	• The recent decision to identify economically weaker section as those with annual income below INR 8 lakhs to create a 10% quota (in education and government jobs) could lead to a disparity. The expansion brings BPL population, those with subsistence income and several tax filers into one category, thus leading to a growing demand for common entitlements.	• An umbrella definition for EWS and LIG is required for all welfare schemes and quota entitlements. Considering that a large portion of those identified under income criteria (of INR 8 lakhs) do not own a house, the norms for EWS and LIG could be increased to achieve PMAY goals.

PMAY – Construction methods

Current Status	Challenges	Proposed Reforms
Most affordable and vernacular housing is driven by traditional craft	• Standardization of location specific practices hard for affordable housing	• Setting up modular design component manufacturing for key areas in compliance with existing craft and vernacular construction.
Unfocused promotion of locally sourced materials and domestic products	• Leveraging supply-chain mechanisms in the construction industry through PMAY, Make in India etc.	• Build-up economies of scale by standardized design approach, especially for emerging construction materials and methodologies.
Crude and volatile on-site construction practices and execution	• Creating a more organized and disciplined on-site construction process	• Push for off-site modular construction plants by subsidizing setup cost. Adopt stringent on-site labour safety laws for successful implementation of prefab construction methodologies.



Affordable Housing & PMAY

Current Status	Challenges	Proposed Reforms
Since land prices within cities are exorbitant, developers tend to develop affordable project in the peripheral areas where infrastructure is not well developed.	• Lack of support infrastructure and negligible public transport have been the biggest deterrents for homebuyers. Therefore, low demand in such projects make them financially unattractive for developers.	• Incentivize developers to develop infrastructure or completing projects on time. Consider higher FSI for developers for their subsequent projects as TDR to steer them to undertake such activities
Over the last two years, the government has launched 8 PPP models to offer incentives to developers.	• Current PPP models of projects on government and private lands need to outline further incentives for developers.	• Allow developers a higher proportion of units for free sale in the market through enhanced FAR, with the rest handed over to the government on government land.
The government has earmarked 2,000 hectares of sick PSUs, which could be freed up for affordable housing. City government(s) such as Mumbai Metropolitan Authority are already providing unutilized public properties for redevelopment / affordable housing.	• Paucity of land banks within city limits at reasonable prices has been detrimental to the creation of large-scale affordable housing stock in cities by private developers. • Large chunks of land under PSUs and government bodies like Indian Railways lay unutilized in locations that can act as sponge for development within the city.	• Release government land banks it holds within city limits. Formulate mechanisms for bidding of land parcels of erstwhile port & mills, besides land parcels of sick PSUs - at a subsidized rate for green-rated affordable housing projects. IGBCs' Green Affordable Housing Rating can be adopted by developers of such projects. • Have a mix of affordable housing, along with mid segment housing and commercial units to be sold in the free market.



Goods and Service Tax (GST)

Current Status	Challenges	Proposed Reforms
Input Tax Credit (ITC): Developers are allowed to claim credit on input materials. This eliminates cascading of taxes and allows developers to pass on the benefits to buyers which can translate to reduced apartment prices. **Anti-Profiteering Law:** benefits of input tax credit to be passed on to buyers and developers to not use the facility to enrich themselves	• Older projects with a higher extent of work completed have limited ability to claim input tax credit. • How do developers renegotiate their existing vendor contracts? • How do developers correctly calculate the ITC and pass through amount to buyers? • How to treat old and new buyers?	• Minor tweaks to ensure ITC claims are suitably filed and passed on • Link ITC pass through as part of RERA Law
Higher tax incidence: GST has brought all indirect taxes under one umbrella but the direct taxes, registration and stamp duties remain the same making the overall taxes on housing higher than before.	• For properties under construction, overall taxes for home buyers inclusive of stamp duty and registration are anywhere between 16-21% (depending on the city) as compared to earlier levels which were lower prior to GST roll out. • Developers and landowners have to pay GST in case of Joint Development agreements leading to double taxation. Ambit of GST does not include sale of land and building • GST rates on cement are 28% and steel at 18% which are the two most critical components for construction. • GST for affordable housing is currently at 8%.	• Bring real estate under GST completely and subsume stamp duty and registration costs at the same rate • Provide clarity on GST on TDRs; remove double taxation incidences under Joint Development agreements which are the norm now in the residential industry • Reduce the incidence of GST on under-construction apartments from current 12% to 5%. The government has to build consensus around it. • GST exemption to affordable housing • Reduce GST incidence of input materials such as cement and steel. This will also allow for reduction in construction costs.
Land abatement: Currently, the effective GST rate is at 12% which is levied on buyers after the abatement of 33% for land cost.	• Land is the costliest input in metro cities	• Allow for higher abatement in metro cities or link abatement percentages to ready reckoner or circle rates and introduce a slab system, allowing for higher abatement where land values as percentage of project cost are higher. This again can be linked to disclosures made under RERA by developers regarding project costs.



The Real Estate (Regulation and Development) Act (RERA)

Current Status	Challenges	Proposed Reforms
Approval authorities not covered under RERA State level and urban local bodies as well as approval agencies and municipal bodies have not been covered under RERA where developers have penal provisions in case of delays in project completion timelines	• Developers have to obtain multiple approvals which adds time and expenditure to the project thus adding on to the costs. • In most cases, approvals by state agencies have a lag period which can end up adding anywhere between 9-18 months of delays to project completion. • Such delays in approvals can cause project timelines to slide for no fault of the developer. • Also, such agencies need to be held accountable if they are adding additional time to a project timeline as it causes hardships to the buyers.	• Bring approval agencies under ambit of RERA. • Define the powers that the regulator will enjoy over the approval agencies and penalties that may be allowed (monetary, non-monetary), directive powers for the regulator in case actions of approval agencies cause project delays. • Allow for penalties in favor of concerned developer(s).



The Insolvency and Bankruptcy Code (IBC)

Current Status	Challenges	Proposed Reforms
IBC versus RERA debate IBC by providing financial creditors status to homebuyers allows them to initiate liquidation proceedings against developers This reduces the primacy of RERA which has been envisaged as the specific law to deal with all real estate disputes between developers and buyers RERA does not have any provisions regarding dealing with insolvent developers.	• General law versus specific law for real estate creates confusion over who is the final authority in dispute resolution. • A NCLT and filing under IBC does not have a corresponding provision under RERA and creating majority opinion becomes a challenge which further delays the resolution process	• Allow RERA to be the primary law which deals with all real estate related disputes between developers and homebuyers. • A synchronized approach between RERA and IBC is needed Separate provisions for bankruptcy not conflicting with IBC could be introduced in RERA. • To protect rights of all stakeholders and following the recent proceedings by the apex court, RERA could be given priority and be made the sole regulator in the matters involving real estate projects. IBC should be invoked only when the promoters fail to follow the directives given by RERA.

Labour Skill Development

Current Status	Challenges	Proposed Reforms
Poor social capital and lack of market desire to invest in social capital	• Cross-subsidizing community initiatives by pooling money from government welfare schemes in the same direction	• Aligning government welfare schemes for construction workers with private CSR and project management programs for effective utilization
Dismay over high initial investment and operational effort of training labour	• Subsidizing the management effort undertaken by companies in skill creation amongst the labour	• Incentivizing CSR initiatives for labour management and training by allowing tax break/credit systems
Tensions over loss of labour market	• Creation of skilled labour workforce with adoption of new technology that resources alternative labour	• Leveraging technology to increase market for skilled labour thereby creating newer economic cycles



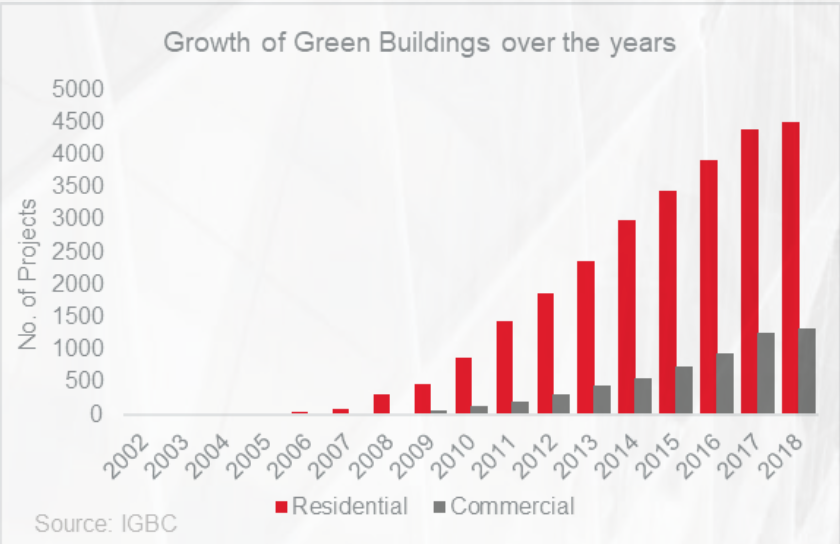
Standing Demands: Specific recommendations

Current Status	Challenges	Proposed Reforms
Single window clearance Only Mumbai and Delhi have so far allowed for online systems where single window clearance is available Government has recently issued a notification allowing urban local bodies to issue environmental clearances for projects of specific size and certain sized projects were taken out of the purview of the Environment Protection Act. The Delhi High Court has stayed the notification for the time being	• Multiple approval agencies, various stakeholders at state and central level with delays in giving approvals are also relevant causes that lead to cascading of project deadlines. Across major cities delays can range from 12 months to even 3 years and this adds to project overruns and consumer hassles. First time home buyers are provided	• Create the single window clearance mechanism by empowering urban local bodies and fast-tracking project approvals • Introduce online platforms as mandatory requirements for metros and cities under Smart Cities Mission to cut through red tape and foster transparency
Industry Status to Housing Affordable housing has infrastructure status but the real estate industry and particularly housing could benefit from getting industry status. This could kickstart the credit cycle for developers	• Affordable housing segment is still struggling for loans despite infrastructure status as banks are shying away from lending to the overall real estate sector, especially the residential asset class.	• Give infrastructure status to housing could bolster the credit and lending cycle for the cash-starved sector • Push affordable housing under priority sector, thus giving a clear signal to banks to start lending actively to this segment. • The loan requirements are lower and the high demand will ensure that loans are returned on time and banks' balance sheets are not stressed. • Definition of affordable housing already exists; can be revised to include ticket size as the parameter. This approach may be based on city population, metro status, land rates etc.

Global Construction Market Influenced by Renewables

The construction sector has traditionally been viewed as a relatively static sector of any economy, with little change in the way technology is used for more sustainable living. With sustainability as a crucial issue in the last decades, the building sector, directly or indirectly causing a considerable portion of the annual environmental deterioration – thus, adopting more environmentally benign methods of construction and building would pave way for sustainable living. As concerns about global warming persist, global energy consumption and carbon emissions continue to gain the attention of the international community, the construction sector is beginning to see more environmentally conscious buildings. Green buildings have increasingly shown a reduction in incremental cost and an increased return on investment through reduced payback years. Earlier buildings could cost up to as much as 20% of incremental cost on total project budget which has come down to as low as 1.5%, complemented by reduced payback period from 7 to 2 years.

Constructing green buildings involves marginally higher initial cost that can be ignored when one sees from the life cycle viewpoint. Most of the green measures have attractive payback periods of 2-3 years. Besides the central government, several states are already pushing for green buildings by providing FAR incentives, financial assistance and expediting clearances. Affordability, and Availability were some initial challenges which have been addressed through the green building movement initiated by CII-IGBC. Reputed developers are coming up with green structure in large scale commercial projects/SEZ developments to maximize efficiency, minimize the use of resources and lower the utility costs. Developers hardly find it challenging to charge additionally on the base price– as the cost per dwelling unit is less than 0.1% of the initial cost.





Improving Processes

Current Status	Challenges	Proposed Reforms
Lack of defined national (Environmental-Social-Governance) ESG benchmarks Need for internal change within companies especially developers by driving changes in financial markets	• Development of indicators to rank the progress and performance of developers and real estate investors • Creation of public equity and market forces that judge real estate based on ESG performance	• Creation of government ESG benchmark agency for monitoring sustainable real estate growth • Tax incentives and carbon credits on investment into Green Bonds to influence future growth of REITs, NBFCs, and real estate investments
No national budget or policy to promote research and development of green building materials or environmental technology High cost of externalities involved in O&M (Operation & Management) of green buildings High-Cost of automated systems and green materials deter projects that seek to set precedence GreenPro Rating system (IGBC) is the only material rating system providing support mechanism for development and promotion of green building materials	• Identification of inefficient offerings in the real estate construction sector • No incentives for adoption of automation for O&M of green building systems • Reducing the cost of critical building construction methodologies based on formwork, patented materials and equipment. • Construction technology in India is influenced by local labour and craft. Aligning these practices with building automation and green building technology remains a challenge.	• Tax incentive on R&D and first use initiatives of implementing efficient construction materials, technology and methodology • Reduce custom duty and (Countervailing Duty) CVD on import of income/rent based technological commodities such as Building Information Modelling, Building Automation and formwork technology, Machine Learning Tools, IoT for project monitoring and home automation. • Custom Tax exemption, GST exemption of imported or domestic green building materials and technology • Skill development as an incentive against tax credits
Confusion over mandatory and selective practices making the differentiation between ‘resource efficient’ and ‘environment-friendly’ difficult	• Standardizing norms for ethical practice based on interventions and performance targeting major asset classes	• Defining environment conscious and ecologically friendly construction practices to complement energy-efficiency standards for each asset class



Improving Processes

Current Status	Challenges	Proposed Reforms
Green Building increments unviable for affordable housing projects and special cases with thin profit margins Green building incentives are currently project-specific and do not incentivize a portfolio approach FAR incentives and fast environmental clearance for greenfield projects of a particular size in some states	• Lowering the overall threshold of project cost by eliminating govt restrictions that create land crunch and increase in land rates in cities for greenfield developments • Project-based incentives promote short-term thinking and do not create a sustainable business development based on green building design • Moving from a project-based approach to a portfolio-based approach that encourages entire design and developer practices based on green building construction • Maintaining standards in green building compliance at the stage of availing FAR and at the stage of occupancy and O&M	• Promote floating FSI for affordable housing projects to cross-subsidize costs increments on account of green initiatives within the project • Developing a rating system to rank developers and investors based on their portfolio commitment to lend carbon credits and TDR rights. • Portfolio-based reduction on property tax, stamp duty; cashback on consultation and certification fees as part of a National Green Policy

Top recommendations:

Affordability	Affordable Housing	Construction Methodology	PMAY	Labour Skill Development
Reduce GST incidence on under-construction projects Bring real estate completely under GST, subsuming local levies and clarifying treatment of TDRs, JDs etc. Direct commercial banks to push affordable housing developer loans under priority sector lending Single window clearance	Provision of single window clearance and fast track development/deemed approval for projects classified under affordable category Percentage of FAR/ FSI to be made free for provision of amenities and commercial development with flexibility for use as TDR.	Provide special tax-free status to certain materials and construction processes under GST and Custom Duty such as cement, fly-ash, Aerocon blocks, CSEB, CSRE etc. Financial leverage (reduction of duties, tax benefits) to adopt of building technology and methodology in line with SDGs	Enhance value addition in PPP models Make single window mechanism essential for states to release Central assistance under PMAY Push for off-site modular construction plants by subsidizing setup cost. Adopt stringent on-site labour safety laws for successful implementation of prefab construction methodologies	Aligning government welfare schemes for construction labourers with private CSR and project management programs for effective utilization Incentivising CSR initiatives for labour management and training by allowing tax break/credit systems.



NBFCs and Financial Institutions

Institutional investments have been crucial in making Indian real estate soar to new heights ever since the sector was opened for foreign capital in 2005. Since then a continuous and steady relaxation of investment norms has created a robust fund flow mechanism. It is quite pertinent to note how the investment norms have undergone a change since 2005. A timeline chart below shows the sequence of major events that have occurred in the policy framework since 2005.

2001 – DIPP permits FDI up to 100% for development of integrated townships, mass rapid transit systems and manufacture of buildings – subject to prior FIPB approval.

2002 – Specifying other conditions for FDI in development of integrated townships such as minimum capitalisation, land requirement, completion timing etc. Government approval route retained.

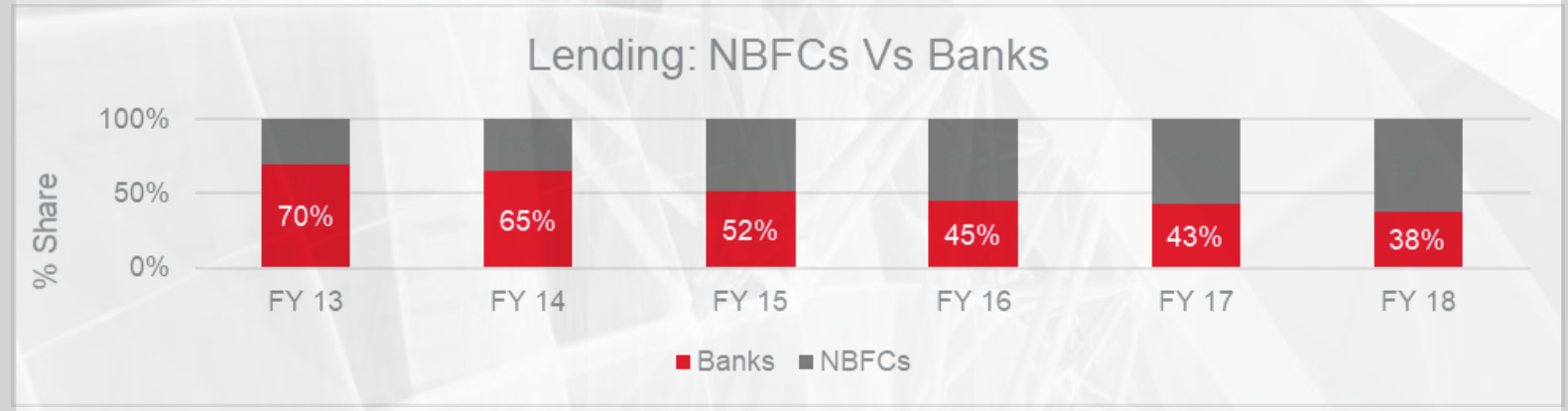
2005 – FIPB approval removed. Real estate sector opened up to 100% FDI in automatic route. Minimum requirement at 50000 sqm for building-construction or 10 hectares for serviced housing plots

2014 – DIPP provides provisions for 100% FDI into construction-development sector under automatic route. Minimum construction requirement retained at 20000sqm or no minimum land requirement for housing.

2015 – 100% FDI allowed into affordable housing construction and development. No minimum land requirement or construction requirement.

2018 – 100% FDI under automatic route for real estate brokerage services.

It is quite unique to also note how the character of fund flow has changed over the past decade. We saw a high share of private equity in the beginning which flowed towards commercial assets to debt dominating in the wake of the Global Financial Crisis when equity investments dried up and investors became more cautious. Since 2011 we saw a return of equity in core assets with a consistently strong performance of debt and emergence of NBFCs as key sources of funding with the latter supporting the residential sector and growing their loan books at a fast pace. The chart below shows the emergence of NBFCs as banks pulled away from advancing more loans to the real estate sector.



Source: RBI, Propstack and Ambit Capital, C&W Research

A large proportion of loans by NBFCs were towards refinancing existing debt obligations, working capital requirements, last mile financing and financing against receivables. Also, a lot of funding for new projects was NBFC-led. In the past three years, residential sales have remained anchored at sluggish levels and a partial recovery was being seen only during 2018. It is in this background that the current NBFC liquidity crisis has short and mid-term implications for the residential sector. Precipitated by the IL&FS default, we are currently witnessing a virtual absence of new fund disbursals by almost all active NBFCs in the real estate sector. Coming as it does in the wake of only a slowly recovering buyer sentiment and with developers stretched between regulatory changes driven by RERA and GST, this situation has the likely impact of delaying a broad-based recovery and even derailing it.

As part of this section, we look at the challenges that financial institutions face in the current times. These challenges could be business environment based or even policy interventions related, and we aim to see how some of them may be overcome with support from the government for these stakeholders.



NBFCs / FIs

Current Status	Challenges	Proposed Reforms
Collapse of IL&FS	• Credit squeeze for NBFCs • Low seasoning of loan books – short-term borrowings against long-term loan advances • Volatility concerns – lending against land, structured loans	• RBI to look for infusing capital in to NBFCs directly through the banking system by relaxed norms for exposure to single entities and re-rating existing exposure • Pushing banks which are out of PCA to lend actively to NBFCs • NBFC (non-deposit taking) lending norms to be regulated under RBI; create new norms to ensure financial spread is not sacrificed • Define debt to equity ratio for NBFCs so that higher leveraging does not lead to similar situation as IL&FS • Create a mechanism whereby all loans by NBFCs should be backed by a credit report from a third-party credit rating agency of the borrowers' financial health and asset coverage. This will bring about a more robust lending process with an element of self-regulation. • Create a robust developer ranking mechanism in sync with RERA and define the loan spread by NBFCs across developer categories
Interest rate hike	• While inflation remains in control, borrowing costs are rising as banks are pulling their lending to NBFCs • Re-rating of commercial paper of NBFCs, making fund raising difficult	• Already small retail loans to be linked to external benchmarks in next financial year. This can be advanced for funding for NBFCs as well as a stop-gap arrangement to check for viability of the process • Liquidity infusion and stricter lending norms for NBFCs under a Risk-based Model could lead to a relaxed lending regime by banks for NBFCs



NBFCs / FIs

Current Status	Challenges	Proposed Reforms
Unfinished inventory pressure and risk on investments made	• The unsold inventory is increasing the pressure of developers even as lenders have to look at getting a return on their investments • Many developers are likely to default on their credit obligations which can further precipitate the liquidity crisis • Sluggishness in the market is also pushing lenders to increase the loan tenures which is impacting their own obligations • Buyers becoming financial creditors under IBC	• Already interventions are in place to kick-start demand; banks could reverse the recent process of increasing lending rates as the inflation remains benign • Improvement in enforcement of contracts and a stronger arbitration mechanism for lenders with defined timeline for dispute resolution • Push NBFCs towards stricter lending norms • Create a risk-weightage system for NBFCs and getting the lending portfolio rated by a credit agency • There is a need to bring homebuyers status as financial creditors and insolvency under RERA rules and ensure that liquidation proceedings are quickly resolved
REITs Draft filing by Embassy-Blackstone	• Pending issues on taxation and rationalization of stamp duties • Tax incidence on domestic investors in 30% while on foreign investors is 5%	• Mostly everything in order for successful REITs barring smaller tax related issues • Stamp duty rationalization is needed when transfer of assets happens from SPV to REIT • Remove capital gains on transfer of assets to REIT from SPV • Bring taxation for non-resident and domestic investors at par to ensure adequate domestic investments in to REITs



Homebuyers

It is without a doubt that the most important piece of legislation for the real estate sector has been the implementation of RERA and setting up of a regulatory mechanism. The push for this was led by demands from buyers who had suffered due to delayed possession, incomplete projects, one-sided buyer agreements and other issues which needed a policy intervention. While RERA has been implemented, there are variances in the extent of state-wise deployment as well as disclosures. Despite an extended disruption in the market, all stakeholders have responded positively to the reforms which have brought much-needed transparency to the system and the industry has largely absorbed the impact of these regulatory changes in recent times.

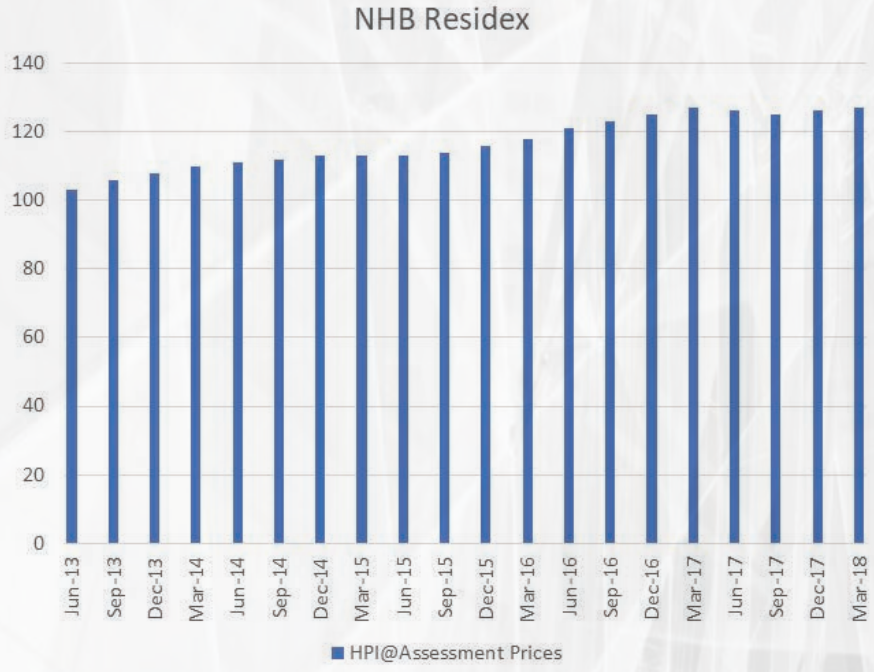
The government has been quite active in removing demand-side constraints as well for the real estate sector which has benefitted buyers immensely. While home loan rates declined to a seven-year low at the beginning of 2018, there was also renewed pressure on banks to pass on the benefits of rate cuts to buyers. With interest subsidies for affordable housing segment for the EWS and LIG segments, the government also pushed forward similar subsidy for the MIG segment as well for first-time homebuyers.

While we moved to a unified tax regime in the form of GST, the overall incidence of tax on real estate became higher on account of the GST tax rate as well as the local levies of stamp duty and registration costs. This has led to heightened demand for bringing real estate completely under the GST regime. The latest from the GST Council does point towards a lowering of GST on home-buying for under-construction projects which may be the precursor to bringing the sector entirely under the GST.

A recent change to the Insolvency and Bankruptcy Code to bring homebuyers to the level of financial creditors has further empowered the buyer class. However, there are still some financial and operational fine-tuning that may be needed to reinforce the reform process from the point of view of the homebuyers. Improving on-ground efficacy, bridging the gap between developers and buyers and improving buyers' confidence is key for successful implementation of these reforms.

The Reserve Bank of India has recently decided to increase the loan limits for priority sector lending (PSL) from INR 28 lakh to INR 35 lakh in metropolitan centres with population of 10 lakh and above, and from existing INR 20 lakh to INR 25 lakh in other centres, provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed INR 45 lakh and INR 30 lakh. This has been a bigger boost to affordable housing segment where first-time homebuyers can avail higher loans along with interest subsidies as well (under CLSS).

Liquidity crunch and a slowdown in the property market post demonetization, GST and RERA led disruption have impacted buyer sentiments over the last 2 years but conditions are certainly improving over the last 6-9 months. Property prices have either stagnated or have fallen in several markets. Cities such as Mumbai and Delhi have been hit hardest where investment demand has largely vanished and buyers are hoping for further corrections and improvements in market conditions. According to data from the National Housing Bank (NHB) Residex for top 50 cities, property prices have barely fluctuated over the last 12-18 months. There are early signs of recovery in sales in cities such as Bengaluru, Pune and Mumbai where RERA implementation has been quite robust. On an overall basis, home sales have shown a marginal improvement of around 17-20% in 2018 while launches have gone up by nearly 65%. The price stagnancy, good bargains across most markets and a stable outlook on the interest rates make 2019 an opportune time for buyers.



**Composite Housing Price Index for 50 Cities, House Price Index (HPI) by National Housing Bank*



Goods and Service Tax (GST)

Current Status	Challenges	Proposed Reforms
Input Tax Credit (ITC): Developers can claim credit on input materials and pass on benefits in terms of reduced prices to buyers.	• Older projects with a higher extent of work completed have limited ability to claim input tax credit. • How can buyers who have purchased prior to GST, claim such benefits from developers? • Clarity needed in input tax credit claim and how it is being passed from developers to buyers • Estimation of ITC in advance is a difficult task as the cost of raw materials could change during the life cycle of a project and such purchases are usually linked to construction progress. • Currently, 12% GST is levied on properties that are under construction or ready to move in properties where completion certificate has not been issued (at the time of sale). No GST is charged to buyers that are purchasing ready properties where completion certificate has been issued.	• The government could review the ITC claims received over the last 18 months to fix ITC on a per square feet as a mandatory benefit. • ITC could be reworked for older projects retrospectively for materials purchased from GST registered vendors. • A compliance and awareness mechanism should be implemented to educate both developers and buyers. • Compliance of passing ITC benefits could be brought under RERA to address the grievances of home buyers.
Higher tax incidence: GST has brought all indirect taxes under one umbrella, but the direct taxes, registration and stamp duties remain the same making the overall taxes on housing higher than before.	• For properties under construction, overall taxes for home buyers inclusive of stamp duty and registration are anywhere between 16-21% (depending on the city) as compared to 18% levels prior to GST roll out	• Higher taxes are a major deterrent for home buyers. GST could be merged with registration/stamp duties to ease the burden on buyers. • Alternately, a direct reduction in GST rate could attract more home buyers and improve the sentiments. • Stamp duty rationalization across the country would also benefit the buyers. • Granting GST exemptions for lowcost housing would be a major boost for those who are looking to buy properties in the affordable segment.



Goods and Service Tax (GST)

Current Status	Challenges	Proposed Reforms
Land abatement: Currently, the effective GST rate is at 12% after the abatement of 33% for land cost.	• Land is the costliest input in metro cities and price could increase gradually during the life cycle of a project.	• Increasing the abatement in metros or cities with population above 10 lakhs could help buyers. Linking abatement to land values may also benefit the buyers.

The Real Estate (Regulation and Development) Act (RERA)

Current Status	Challenges	Proposed Reforms
Dilution of the act: Relaxation of provisions under RERA by states/delay in implementing RERA	• States have modified the central act in certain cases. For example, some states have given exemption to projects that are already under construction and have applied for occupation certificate which does not follow the RERA definitions. West Bengal has notified its own act (West Bengal Housing Industry Regulation Act -HIRA) where clauses on common space and force majeure are tweaked. • Some of the states yet to fully roll out RERA yet. Some of them have partially rolled it out but have not set up regulatory authorities to address buyers' concerns. • Disclosure norms differ across states. In some states, unit configuration break-up is given but sales data is not given. Coverage is also a challenge as not all under construction projects are not recorded completely	• Special provisions should be enforced to protect buyers in projects that are under construction but are exempted by states. • In the interest of home buyers, states should be asked to expedite the roll-out and fully implement the act within set timelines. Delays in implementation could be curbed by introducing higher penalties in favour of home buyers. • A developer ranking mechanism under RERA as per data disclosure norms could be explored. • Ranking and providing incentives to states based on successful implementation and dispute redressal could also help in expediting the process.



The Real Estate (Regulation and Development) Act (RERA)

Current Status	Challenges	Proposed Reforms
Redressal: The timeframe for redressal is 60 days and there are considerable delays (by developers) in adhering to dispute redressal	• Lack of adjudicators or conciliators leads to pending cases across all states. In a lot of cases, the redressal mechanism has not been able to keep pace with a steady rise in complaints. As such, the timelines set for redressal are not followed, adding another concern to buyers. • Even after the dispute had been redressed, developers are not following the resolution(s) passed as there is no follow up mechanism or consequences that could impact them adversely, causing buyers to complain about lack of strict measures and about the procedural delays. • Such actions by developers defeat the very own purpose of RERA and could force buyers to skip approaching the authority for redressal.	• Provisions to increase the minimum number of adjudicators should be explored at the earliest and the list of adjudicators could be mentioned on RERA portals. • A follow-up mechanism should be introduced to make sure the developers are following the orders passed. • Speedy disposal of complaints, and redressal of homebuyers within the stipulated time-period, need to be prioritized, and addressed • Provisions such as higher penalties, denying registration of future projects by the same developers, publishing details of developers not following the orders etc. could be explored. • Provisions to automate, expedite redressals in other forums like consumer courts could be explored to provide relief to the buyers
Ease of RERA portals: Difficulty in accessing project/ developer details	• Despite rolling out the rules and appointing regulatory authorities, majority of the states don't have easy to use RERA portals that could help buyers by acting as a guide to them.	• Is a uniform RERA portal at the national level possible? • Push states to adhere to RERA in language and spirit. • A helpline/forum to help and guide homebuyers to access information on RERA website would be useful. Further, the forum could help homebuyers file complaints, which in the current scenario, is mired by several complexities.



The Insolvency and Bankruptcy Code (IBC)

Current Status	Challenges	Proposed Reforms
Non-synchronous link between IBC and RERA: IBC allows buyers to file liquidation proceedings against errant developers but is a general law while RERA is the primary and specific law for the real estate sector. The objectives of these two acts are pitted against each other	• Home buyers have been brought at par with financial creditors and can push for insolvency proceedings against the defaulting developer. Individuals can also file a petition to initiate the proceedings and the legal proceedings could delay the possession or refunds. • RERA doesn't provide clarity on the issue of insolvent developers and there is a slight lack of clarity in dispute resolution in such cases.	• A synchronized approach between RERA and IBC is needed to protect the interest of home buyers. • Separate provisions for bankruptcy not conflicting with IBC could be introduced in RERA. • To protect home buyers' rights and following the recent proceedings by the apex court, RERA could be given priority and be made the sole regulator in the matters involving real estate projects. IBC should be invoked only when the promoters fail to follow the directives given by RERA.



Tax incentives and Affordability

Current Status	Challenges	Proposed Reforms
Tax incentives: The tax incentives provided to home buyers are not sufficient considering ever-rising prices, delays in construction and lack of provisions to deduct home loan provisions separately	• Currently, taxation on house purchases is a complex phenomenon where all home buyers are not well versed with the computations. • First time home buyers are provided with additional tax deduction of up to INR 50,000 which is too low when home prices in metropolitan cities are considered. • Home loan interest could be deducted up to INR 2 lakhs but again, home buyers consider this as a smaller incentive compared to a high investment. • Separate deduction for principal payment is not available and is included under section 80C which is a large category of other investments. • Duration of construction also determines the amount which buyers can claim as preconstruction interest. The deduction is allowed up to INR 2 lakhs if the construction is completed within five 5 years and if it exceeds, it drops to INR 30,000 per year. This puts buyers at a disadvantage where delays by developers are not in their control.	• A simple taxation structure which includes all home loans purchase related provisions under one section could be an incentive to attract home buyers. • Deduction for first time home buyers could be increased considering increasing home prices and inflation. • Home loan interest deduction could be increased at least for the first few years as initial investments are high and a significant portion of the loan repayment in early years goes towards interest. • Increasing section 80C deductions or creating a separate section for principal repayments could be a great incentive for home buyers, especially for end-users. • Home buyers should be allowed to carry forward their tax credit until all the pre-construction interest is claimed. Moreover, delays beyond buyers control should be considered and buyers shouldn't be penalized with lowering their deductions.



Tax incentives and Affordability

Current Status	Challenges	Proposed Reforms
Defining affordability by ticket size and metro status: Under CLSS, EWS, LIG and MIG are defined based on household income, the loan availed and area specifications which are uniform across the country.	• While uniform specifications across the country are good in for taxation and enforcement, the "One size fits all" norms are not really practical enough for buyers in terms of defining affordability. For eg.– finding smaller units for ESW and LIG as per area specifications in major cities would be a challenging task as there are no affordable housing projects under development	• The approach to defining affordability and provisions under CLSS (area requirements) should be reviewed. Alternatives such as defining affordability by ticket size as per city population, metro status, average price across segments could be explored.

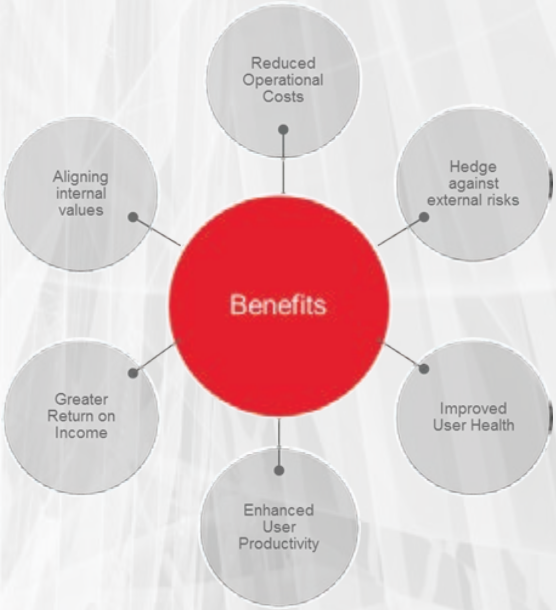
The “Green” Push to Indian real estate

India’s construction industry is the second largest employer in the country employing over 10% of the total workforce today, with its share set to increase to over 15% by 2030. Consequently, India’s annual building (residential and commercial combined) energy consumption has grown consistently at 8% year-on-year to nearly 33% in 2015-16 and expected to be more than 40% by 2025[1]. To that effect, lowering the energy component, even as India’s GDP growth is pushing up the energy requirements, by driving higher efficiency targets is key to meeting the energy challenges across the nation and ensuring its energy security. In addition, technical expertise and social capital in construction methodology by usage of sustainable materials is a means to achieve an ecologically equitable growth.

Demand Drivers and Benefits of Green Buildings

Various incentive-based policies are already in place for developers who are looking to create sustainable greenfield projects. Such policies stress upon green certification systems which encourage developers to assimilate the green design at various stages of the project’s construction lifecycle. As such, a majority of the current Pan-India building stock needs to be upgraded to encapsulate sustainable elements which will enable a greater push to energy savings and promoting a sustainable environment. Equal attention is needed to incentivize upgrade of existing building stock to facilitate operators, occupants, and owners for a holistic understanding and implementation of green building standards in the country. New buildings with green element integration from the core and shell level to equipment can provide cost efficiencies of up to 20-50% while existing buildings can reduce consumption by 10-30%.

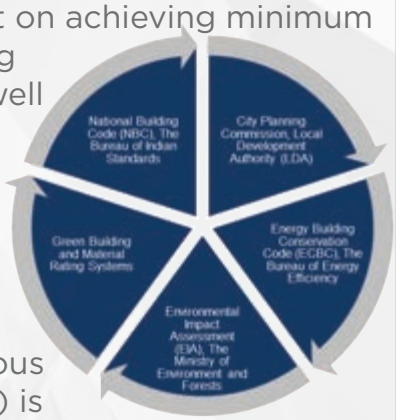




1. Source: Ministry of Statistics and Programme Implementation

Stakeholders in the Green Building market

There are government agencies, urban local bodies and planning authorities, that are working in creation, compilation and implementation of building codes and standards that are applied at the local and national level. The National Building Code (NBC) and Energy Conservation Building Code (ECBC) are expected to have the most significant impact on achieving minimum compliances for building energy performance metrics. However, building energy codes and regulations are still some distance away from being well implemented. ECBC has still not been formally adopted by many states in India. However, India is spearheading development in the green building market through its Demand-Side Management Program that helps in market research and policy advocacy of all energy consuming stakeholders in different sectors. This is further supplemented by a national renewable energy mission and information distribution for effective resource development and awareness. Furthermore, autonomous green rating agencies such as CII's Indian Green Building Council (IGBC) is leading the way in creating awareness, development of green building ratings with the robust certification process, policy advocacy and performance monitoring of green buildings. Almost 92% of green buildings in India are being facilitated by IGBC.



NBC and ECBC when mandated by all States, would ensure achieving minimum efficiencies across buildings. This could enable about 75-80% of buildings to achieve minimum efficiencies. To ensure that the bar is set high in terms of achieving global levels of sustainability, green building certification administered by rating agencies like IGBC is the way ahead. It has been observed world wide that acceptance of green building has grown when it is driven by market forces and administered by professional agencies created with such goals.



Challenges for implementing the 'green' programme

Information Asymmetries: Intangible attributes like indoor air quality, health and productivity are difficult to measure and verify prior to purchase or lease, which makes buildings akin to an experiential product, whereby the quality of the product cannot be observed until occupancy. The difficulty in ascertaining results on building performance can lead to a "market for lemons" in green building construction, whereby low-quantity (traditional) buildings crowd out the high-quality (green) buildings, deterring new investment in green buildings.

Externalities: The building life cycle comprises of many externalities related to building performance like energy benchmarks, differences in assumptions during design and actual operation, maintenance and monitoring. This suggests a need to address these areas. Although for-profit firms might respond aggressively to measure that address hidden benefits of a building, they would still invest more aggressively if and results can be demonstrated through on-the-ground results.

Factors Hindering Implementation of ECBC

- No clear Implementation guidelines
- Lack of uniform and practicable energy code
- Lack of appropriate materials and equipment
- Lack of incentives from the government
- No effective implementation infrastructure for code administration, enforcement and auditing



Industry Factors Hindering the Growth of Green Building Market

- Perceived increased capital costs for construction
- Compressed Development Schedules
- Poor Quality of Commissioning and labour resources
- Lack of Life-Cycle Cost Thinking and social capital
- Lack of Incentives for Operators, Owners and Occupiers for Upgrade of existing Building Stock
- Too many Stakeholders for implementation of ECBC
- Confusion over mandatory and selective practices making the differentiation between resource efficient and environment friendly difficult

Problem Identification in adopting sustainable construction methods

The construction industry is still labour intensive due to in-situ construction approach, consuming significant time for the delivery of project.	There is a loss at labour safety laws Non-standardised design approach is followed Buyer and developer remain unaware
Developers are unaware of the new technological breakthrough because Technological inventions are not effectively converted to marketable innovation.	Economies of scale are not achieved for most of the projects There is a lack of academia-industry connect specially in construction sector There is Impedance to Scalability of new technology due to economic unviability or market competition
There is a myth that green buikdings are costlier.	With more and more stakeholders embracing green buildings, the cost is actually on the decline Awareness on cost of green buildings needs to be disseminated

Directing Policy Interventions and Trends

The government's current direction is towards introducing policy specifying the content of sustainable, recyclable or natural material mandatory for each building class. Integration of natural, sustainable material is being looked at through a scheme such as PMAY, and Make in India from a manufacturing promotion perspective or any government infrastructure building schemes. Linking of skill development programme with innovative building construction technology and material technology to help capacity building is needed. Subsequently, promotion of small scale manufacturing units of natural/sustainable material through financial assistance at village level is absent.

- Financial incentives by the government are based on overall building performance, rather than cost or price.
- Performance-based incentives depend only on meeting energy targets, while cost-based incentives depend on how much one spends on energy efficiency.
- Cost-based incentives have proven ineffectual or even counter-productive (tending to increase price or cost and inviting corruption), while programmes based on performance and accompanied by strong promotion have been very successful (tending to increase competition and encourage innovation) – the government is providing FAR incentives as part of green building rating system compliances.

Building audit by IGBC technical team before final certification is a mandatory part of the certification process. Punitive measures can be put in place for projects failing to obtain final certification rating as committed during the pre-certification stage.

- Effective Enforcement Standards
- Development of compliance manuals, forms, and compliance software
- An appropriate combination of incentive and penalty mechanisms
- Effective monitoring and verification systems
- Demonstration projects that show the cost and effect of energy-efficiency measures
- Effective education and information distribution systems
- An institutional framework with well-defined authority, responsibility and well-trained officials



Promoting Sustainable Construction Methodologies

Industry players have an important role in promoting the growth of the green building market as well as defining sustainable construction methodologies by:

- Assimilating and advocating the impact of building energy-efficiency improvement in the society
- Aid the government in creating energy-efficiency policy-making
- Helping build industry capacity through providing professional and technical expertise or establishing a network of experts
- Raising awareness among industry, public and the government of built environment sustainability
- Providing resources, education, and opportunities for sustainable construction in the society

Improving Construction Methodologies and Techniques

Current Status	Challenges	Proposed Reforms
Lack of security over adoption of models as a market practice	• Providing security and first-mover advantage to domestic stakeholders undertaking an initiative	• Improve scalability and marketability via economic incentive & protection from global competitors
Unfocused promotion of locally sourced materials and domestic products	• Leveraging supply-chain mechanisms in the construction industry through PMAY, Make in India etc.	• Build-up economies of scale by standardized design approach, especially for emerging construction materials and methodologies
Lack of identification of practices, technologies and methodologies that promote Sustainable Development Goals	• Incentivizing only those materials, technologies and design practices that are in line with the SDGs	• Financial leverage for adoption of building technology and methodology in line with SDGs



Promoting Green and Sustainable Architecture

Proposed policy interventions

Current Status	Challenges	Proposed Reforms
Lack of uniform and predictable energy code: ECBC not adopted by state governments into their local building code	• Suggesting minimum measures for different geographical zones	• Mandatory to meet minimum energy efficiency as per ECBC and water efficiency as per India Plumbing Code
Lack of implementation and clearance guidelines: City Planning commission does not recognize green buildings as mandatory practice Municipal departments face a cash crunch on provisioning for green buildings for state-owned buildings Smart City Mission, Housing for All do not recognize green buildings as a mandatory practice	• Recognizing key minimum aspects of green buildings that can be adopted throughout the city • Pushing for diverting municipal expense towards 'greening' of state-owned buildings • Decentralizing Local Development Authorities to raise their own finances through PPP • Understanding zonal development and implementing successful green building measures for each zone • Encouraging cities to adopt green buildings as part of their Smart City Mission	• Include a minimum emission reduction target (~25%) in city planning commission • Providing better rating to bonds issued by municipal departments based on green building compliance • Integrating green buildings into Area Based Development of Pilot Programmes under Smart City Mission and AMRUT and then extending to entire city • The future infrastructure developments in the city can be as per guidelines like the IGBC Green Cities Rating
Lack of implementation infrastructure for code administration, enforcement and auditing: Few existing provisions to encourage partial or incremental upgrade of existing building stock	• Expanding on existing programmes and norms for partial or selective compliance of green building codes for existing building stock • Green rating agencies like IGBC monitor the performance of green-rated buildings through the voluntary disclosure of energy and water bills by the project owners. This helps to identify improvement opportunities. Moreover, green-rated projects are advised to get recertified as per latest IGBC ratings every 3 years to ensure sustained performance. Uptake of recertification and voluntary disclosure of performance data by building owners is still limited.	• Encourage owners to upgrade existing stock to enhance efficiency Eg: IGBC Green Existing Buildings Rating and IGBC Green Residential Societies Rating can be adopted by the existing commercial and residential sector to enhance their performance • Use public funds to leverage micro-finance for efficiency improvements and incorporating green measures



Proposed policy interventions

Current Status	Challenges	Proposed Reforms
Lack of technical expertise: Limited awareness or skills leading to inefficiency in new and existing buildings with private companies Lack of exhaustive information on aspects that address health and wellbeing of occupants	• Training and capacity building being done by agencies still do not reach all stakeholders • Wider acceptability of the need to address health and well-being is required amongst the existing buildings alongside professionals who can address these aspects	• Encourage CoA and AICTE to introduce green as a subject for final year students of Architecture and Engineering • Encourage other agencies to launch education models to make students industry-ready • Encourage research and collaborative efforts on studying occupants' health and well-being in green buildings • IGBC has developed the Health and Well-being Rating focusing on the Physical, Emotional / Intellectual and Social impact of buildings on an individual. Projects should be encouraged to address the aspects of occupant wellbeing
Lack of availability of green building materials & equipment: India is still banking on eco-labeled products from other countries	• Around 500 building products have already been rated under GreenPro Rating of CII. Wider adoption of green product rating is the need of the hour	• GreenPro Rating system of CII is a rating system based on life cycle assessment of the product. GreenPro is also recognized by the international alliance, Global Ecolabeling Network (GEN). IGBC encourages use of GreenPro-rated products through its green building ratings • Launch awareness programmes on health benefits that accrue from green building materials like paints, carpets, sealants etc., • GST exemption for domestic green building materials and technology



Proposed policy interventions

Current Status	Challenges	Proposed Reforms
Stuck with monetary and FAR incentives of a single project approach: Currently owners and occupiers have minimal monetary incentive on upgrade of existing building stock. Most incentives are in the form of FAR valid for sizeable greenfield developments only Lack of incentives for tenants or prospective home owners to select green buildings that are placed at a premium	• Adding monetary incentives for stakeholders for whom FAR incentives are not applicable to drive demand-side growth	• Creating distinct incentives for different stakeholders: Reduction in property tax for green building owners, FAR for developers • Only 9 states in India have incentivized green-rated buildings with additional FAR, rebate in property tax, etc. This can be implemented across several other States. • Incentivizing green buyers by providing loans at 25 to 50 basis points lower, plus rebate on registration and stamp duties



Conclusion

With a wide-ranging reform agenda implemented with great zeal by the government, the Indian real estate's landscape has been imbued with transparency and greater accountability, which was the first step towards making a more efficient and well-regulated market. With the removal of information asymmetries through setting up of the real estate regulator, thus, creating a distinct and robust dispute resolution mechanism, the sector has been pushed towards cleaner market practices. Disclosure norms and financial prudence requirements have created disruptions to existing business practices while imbibing a sense of discipline to market players.

The movement to a unified tax regime through the implementation of GST caused yet another disruption to normality in the sector, with changes to accounting and reporting practices leading to another period of turbulence in the sector. It is to the credit of the developer community that it has responded positively to these changes by pushing transformation in their businesses on a war footing. In a time when residential markets have been sluggish these changes were tough, though essential and much needed. These are short-term pains for larger, long-term gains for the entire industry. While buyers have it good, there remain certain outstanding issues that both these stakeholders have identified. While information levels across certain state RERA portals remain patchy, the developer's demand for single window clearance and bringing the role of approval agencies under RERA remain relevant. The need for synchronous harmony between RERA and other related laws to Insolvency and Bankruptcy and the need for bringing all elements of the real estate sector under GST and clarity on tax issues are also issues that are relevant and need to be addressed.

The government's efforts to promote affordable housing have been commendable and the incentives to the private sector are bearing fruits, though land availability and last mile infrastructure linkages are needed to give the necessary push to the sector. It is essential that financial support to the sector through industry status to housing, lowering of GST rates and a robust lending mechanism are looked at in the short to medium term period. We are already hopeful of the GST rates being rationalised for under-construction properties and for input materials which shall give a shot in the arm to the sector. The financial institutions are playing an important role in helping the sector reach new heights and the current policies have created quite an encouraging landscape for more investments in to the sector. A faster and resolute dispute and arbitration mechanism is needed even as there is a need to push for more conservative leveraging ratios for domestic lenders to protect investors and sustain fund flows in a smooth manner.

Finally, sustainability across the construction sector needs the right push as the country moves forward. All stakeholders need to be encouraged to push the green agenda. Incentives could range from developers being considered for higher FAR, building owners with property tax rebates and end-users with reduction in utility tariffs.
All in all, these are exciting times for the real estate sector where the changes are coming thick and fast and we hope that certain recommendations/suggestions we have made through this paper shall find some resonance in formulating future policies and bringing about suitable modifications to existing regulations.

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