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NAREDCO

NAREDCO FINANCE CONCLAVE
RIGHT FINANCING FOR THE RIGHT PROJECTS

Real Estate FINANCING LANDSCAPE

KNOWLEDGE REPORT

Message from Naredco

The Real Estate Industry which is synonymous to Nation Building and has the potential to drive the Nation's economy towards 5 trillion $ which is driven by the domestic demand alone.

The biggest challenge that we see at NAREDCO Finance Committee (NFC) is that the Financing support required by the projects are not adequately made available. Unscientific funding and insufficient funding makes many projects unviable and stressed. Too much jugglery and dependencies on sales receipts and speculative funding creates lot of Chaos for the projects and in the entire market.

We from NFC are conducting this Finance Conclave to bring different Financial Institutions and Builders on one platform, highlight the problems and evolve solutions for all stake holders, develop scientific and practical Financial instruments, policy intervention and assistance from the Ministry of Finance and Ministry of Housing and Urban Development and many actionable solutions.

On behalf of the NAREDCO and NAREDCO Finance Committee. I personally welcome my industry brethren to attend this Conclave for all the right reasons and enlighten yourselves with some fresh ideas and path breaking solutions.

Shri Sathish Kumar
Chairman
NAREDCO Finance Committee

Message from Resurgent India Ltd

The real estate industry is a significant player in the Indian economy, comprising various sub-sectors such as housing, retail, hospitality, and commercial domains. It is projected to grow to Rs. 65,000 crores (US$ 9.30 billion) by 2040 and contribute 13% to the country's GDP by 2025.

Despite its rapid and multifaceted growth, the Indian real estate industry is facing numerous challenges that affect all stakeholders, such as homebuyers experiencing delays in possession, builders facing cash flow problems and difficulty in securing funding, and banks struggling with fund diversion and stressed assets.

Another factor hindering the growth of the real estate sector in India is the growing number of stalled projects. Stalled projects in India are caused by a myriad number of factors. These include issues related to land acquisition, environmental clearances, and bureaucratic red tape. Other factors like funding and financing challenges, conflicts with local communities, and inadequate project management can also contribute to delays. Economic and political instability, as well as frequent policy changes, can exacerbate the situation. The cumulative effect of these factors can lead to significant cost and time overruns and hinder the completion of vital infrastructure and development projects in India.

The report highlights the multiple challenges the real estate industry in India is facing and proposes solutions to address them. Tailored banking solutions, revisiting the financing landscape, and addressing anomalies and loopholes are essential to provide more flexibility and stability in the industry.

I wish all the very best to NAREDCO for the upcoming "NAREDCO FINANCE CONCLAVE".

Shri Jyoti Prakash Gadia

Managing Director

Resurgent India Ltd

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OVERVIEW OF THE CURRENT REAL ESTATE LANDSCAPE

INTRODUCTION

The real estate industry is a prominent global player, encompassing diverse sub-sectors such as housing, retail, hospitality, and commercial domains. Its expansion owes to the rising demand for corporate spaces and urban and semi-urban dwellings. In India, the real estate sector stands as the second largest source of employment opportunities after the agriculture sector. With its vast potential and impressive scale, the real estate industry shines brightly, setting itself apart from its peers.

INVESTMENTS/DEVELOPMENTS

The real estate market in India is forecasted to expand to Rs. 65,000 crore (US$ 9.30 billion) by 2040, a significant increase from Rs. 12,000 crores (US$ 1.72 billion) in 2019. The industry is projected to achieve a market size of US$ 1 trillion by 2030, rising from US$ 200 billion in 2021 and contributing 13% to the country's GDP by 2025. Furthermore, there is substantial growth in retail, hospitality, and commercial real estate, which are essential for meeting India's burgeoning infrastructure requirements. The current rate of housing construction is approximately three houses per 1,000 people annually, falling short of the necessary rate of five houses per 1,000 population. As a result, there is currently a scarcity of approximately 10 million units of housing in urban areas. To keep up with the rise in the country's urban population, an additional 25 million units of affordable housing will be required by 2030.

CHALLENGES IN THE REAL ESTATE SECTOR

According to a recently published report, the Indian residential real estate rental market stands at $13.5 billion while the shared residential rental market is worth $6.5 billion. However, challenges such as a mismatch in supply and demand, and a liquidity crunch have had an outsized impact on growth. The current rental yields in residential real estate are as low as one to three per cent, making it unattractive from an investment perspective. Besides, managing properties and rentals has never been easy, and the post-buy expenditure in maintaining the assets may stretch anywhere between 10 and 20 percent of the rental earnings, which has brought the focus back on rental yield.

Housing projects in the residential sector of the country are facing significant delays, and some have even come to a complete halt, causing problems for many homebuyers. The process of booking a house and actually moving in is fraught with difficulty, requiring the negotiation of various government offices, tribunals, and courts.

- A real estate consultancy has reported that approximately 500,000 homes valued at Rs 4.48 lakh crore are stalled in seven metro cities.
- The majority of these projects are in the National Capital Region (NCR) and Mumbai Metropolitan Region (MMR), accounting for 77% of the stalled homes.
- Pune and Kolkata account for 9% and 5% of the stalled homes respectively, while the remaining 9% is distributed among the southern metros of Bengaluru, Chennai, and Hyderabad.
- NCR has around 240,610 stalled or delayed units worth over Rs 1.81 lakh crore, making it the most affected region.
- MMR has 128,870 stalled units worth about Rs 1.84 lakh crore, making it the second most affected region.
- Bengaluru has 26,030 units worth over Rs 28,072 crore that are running behind schedule.
- Hyderabad has 11,450 units worth over Rs 11,310 crore that are running behind schedule.
- Chennai has the lowest number of stalled homes among the top 7 cities, with 5,190 units worth around Rs 3,731 crore.

CHALLENGES FACED BY CUSTOMERS DUE TO STALLED REAL ESTATE PROJECTS

- Potential financial losses as customers may have already made significant payments towards the project.
- Inability to recover investments if the project remains stalled can lead to financial difficulties.
- Damaged credit scores due to stalled projects can make it more challenging to secure loans or credit in the future.
- Lengthy legal battles and restrictions on selling the property may arise if the developer files for bankruptcy or insolvency.

CHALLENGES FACED BY BUILDERS WHEN REAL ESTATE PROJECTS STALL

- Reduction in sales velocity can cause financial difficulties for builders.
- Cash flow problems, loan repayments, and difficulty in securing further funding can arise.
- Inability to complete the project can result in significant financial losses.
- Builder's reputation can be impacted, making it challenging to secure future projects.

CHALLENGES FACED BY BANKS WHEN REAL ESTATE PROJECTS STALL

- Banks have a significant amount of their lending exposure in the form of project loans.
- Stalled projects become non-performing assets (NPAs), leading to asset quality deterioration for banks.
- Asset quality deterioration can impact the profitability and ability of banks to lend further.
- Liquidity concerns and reputational risk can arise for the bank.
- Failure to recover the loan may result in writing off the loan as a loss, leading to significant financial losses for the bank.

ROAD AHEAD

The real estate sector in India has been facing a multitude of challenges in recent years, including stalled projects, reduced sales velocity, and non-performing assets (NPAs). These challenges have a significant impact on all stakeholders involved, including customers, builders, and banks. In this context, there is a need for a comprehensive and nuanced approach to address these issues, which requires a shift in the industry's general assumptions and expectations.

ESTABLISH A COMMON PLATFORM

To bridge the gap between demand and supply, a common platform can be established that brings together all stakeholders in a transparent and efficient manner. This platform can enable easy access to information, streamline the decision-making process, and create a level playing field for all participants.

RETHINK BANKING POLICIES

To address the challenges faced by banks due to stalled projects, it is essential to rethink banking policies. Customized loan restructuring, appointing dedicated teams to monitor project progress, providing technical assistance, collaborating with other stakeholders, and communicating transparently with borrowers are some of the steps that can be taken by banks to revive stalled projects.

REALISTIC EXPECTATIONS

Investors now show an increased appetite for "institutional-grade project documentation" that includes detailed financial models and feasibility studies. Banks need to assess full project cycles for cash flow analysis. Builders need to lower market inflow expectations.

Overall, the solutions proposed aim to address the challenges faced by customers, builders, and banks due to stalled real estate projects. By establishing a common platform, rethinking banking policies, and setting realistic expectations, the real estate sector can be revitalized and made more sustainable.

KEY HIGHLIGHTS

- The real estate market in India is forecasted to expand to Rs. 65,000 crore (US$ 9.30 billion) by 2040, a significant increase from Rs. 12,000 crores (US$ 1.72 billion) in 2019.
- The industry is projected to achieve a market size of US$ 1 trillion by 2030, rising from US$ 200 billion in 2021 and contributing 13% to the country's GDP by 2025.
- The current rate of housing construction is approximately three houses per 1,000 people annually, falling short of the necessary rate of five houses per 1,000 population.

- The Indian residential real estate rental market stands at $13.5 billion while the shared residential rental market is worth $6.5 billion.
- The current rental yields in residential real estate are as low as one to three per cent, making it unattractive from an investment perspective.
- Around 500,000 homes valued at Rs 4.48 lakh crore are currently stalled in seven metro cities.
- The National Capital Region and Mumbai Metropolitan Region account for the majority (77%) of these projects.

REAL ESTATE MARKET POTENTIAL

DOMESTIC DEMAND AND GROWTH MATRIX

The Indian real estate market is predicted to experience significant growth in the coming years. It is expected to reach a market size of US$1 trillion by 2030, up from US$200 billion in 2021. The sector is estimated to contribute 13% to India's GDP by 2025. Retail, hospitality, and commercial real estate are also expanding rapidly to meet the country's growing infrastructure demands.

According to a report, the Indian housing market witnessed a historic high in sales in 2022 despite challenges such as rising mortgage rates and property prices, as well as global headwinds. Bengaluru, Hyderabad, Mumbai, and Pune saw remarkable growth and achieved the highest sales post-2008, while Delhi-NCR and Kolkata recorded the highest sales post-2014. The report noted that sales volumes in the first half of 2022 reflected the strength of the market and people's desire to own a home in the post-pandemic period. Sales rose by 16% in the October-December quarter compared to the same period in 2021 but were down 5% sequentially as homebuyers took a cautious approach. The report also highlighted that 247,000 units were launched in 2022, the highest in over a decade, and most of the launches were in Mumbai, Hyderabad, Bengaluru, and Pune. Premium segment apartments accounted for a sizeable 21% of the total share in the year. The report expects the market to sustain its growth momentum in 2023 due to India's resilient domestic economy and robust macroeconomic fundamentals.

The real estate sector in India is expected to continue its growth trend in the upcoming years, reaching Rs. 13,00,000 crores by 2023. The growth is being driven by factors such as increasing population, rising incomes, growing urbanization, government subsidies, and improved infrastructure. The sector provides a potential for steady income streams, capital gains, tax advantages, and is not subject to stock market volatility. Economic trends such as low-interest rates and increased access to capital will shape the industry, with opportunities for investors at all levels.

A survey reported that only three houses are built per 1,000 people per year, which is less than the required construction rate of five houses per 1,000 population. Currently, there is a shortage of around 10 million housing units in urban areas, and an additional 25 million affordable housing units are needed by 2030 to accommodate the growing urban population.

India's growth is not just reflected in the growth of its metropolitan cities, but also in the construction of real estate in smaller towns, villages, and second and third-tier cities, which has been boosted by robust infrastructure.

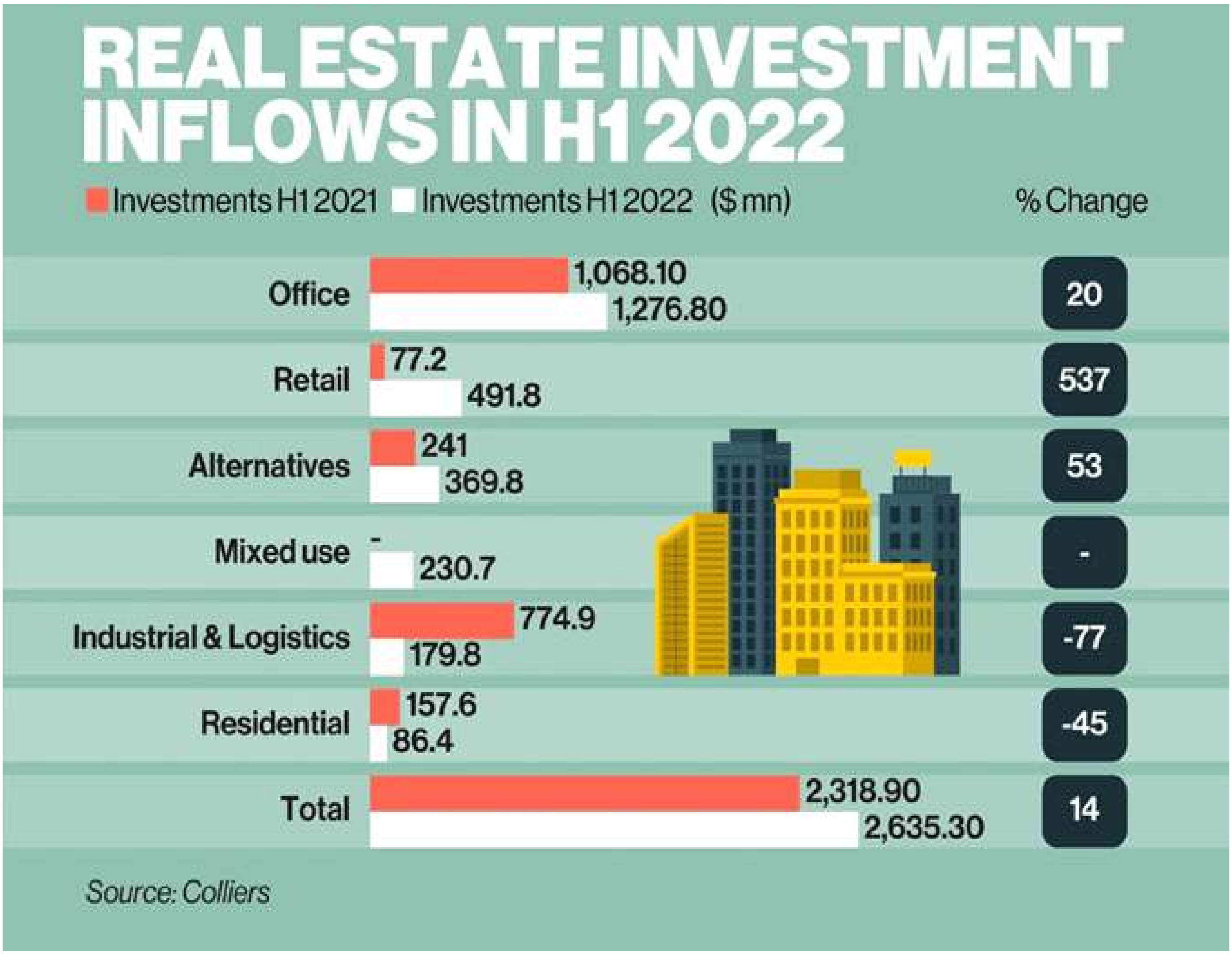
The Covid-19 pandemic has changed the dynamics of work and living in the country, with urbanization no longer restricted to metropolitan cities. Tier-2 and tier-3 cities and towns are now aspiring for fully sustainable multi-storeyed buildings, fully-secured gated communities, and well-designed commercial complexes and malls. With a hybrid mode of work, there has been a migration of skilled workforce to satellite cities, fueling demand for Grade A commercial spaces in these cities.

The Indian real estate industry has been agile and resilient to meet evolving requirements, creating a demand for emerging asset classes. Proptech has also been instrumental in easing the buying and selling of property, with technology companies having a significant share in the aggregate market leasing activity. The emergence of work-from-home has given rise to personalized offices in residential properties and a resurgence of verandas and balconies, providing extra space for an office desk surrounded by plants. Overall, India's real estate sector is poised for continued growth, with newer solutions emerging and likely to strengthen over the years.

KEY HIGHLIGHTS

- Indian real estate market expected to reach US$1 trillion by 2030, up from US$200 billion in 2021
- The sector estimated to contribute 13% to India's GDP by 2025
- Bengaluru, Hyderabad, Mumbai, and Pune saw remarkable growth and achieved the highest sales post-2008, while Delhi-NCR and Kolkata recorded the highest sales post-2014.
- Sales volumes in the first half of 2022 reflected the strength of the market and people's desire to own a home in the post-pandemic period.
- Sales rose by 16% in the October-December quarter compared to the same period in 2021 but were down 5% sequentially as homebuyers took a cautious approach.
- 247,000 units launched in 2022, the highest in over a decade, and most of the launches were in Mumbai, Hyderabad, Bengaluru, and Pune
- Premium segment apartments accounted for a sizeable 21% of the total share in the year.
- Real estate sector in India is expected to reach Rs. 13,00,000 crores by 2023

- Shortage of around 10 million housing units in urban areas, and an additional 25 million affordable housing units are needed by 2030
- Investments in real estate reached $2.6 bn in H1 2022; the office sector dominated with 48% share.



KEY CHALLENGES FACED BY THE REAL ESTATE INDUSTRY

CHALLENGES FACED BY CATEGORY B AND C BUILDERS

Category B & C builders, also known as small and medium-sized builders, face several challenges in real estate stalled projects. These challenges include:

- **Lack of Access To Financing :** Category B & C builders often have limited access to financing compared to larger builders. This can make it difficult for them to secure the necessary funding to complete stalled projects or start new ones.
- **Limited Resources :** Smaller builders may have limited resources in terms of manpower, equipment, and materials. This can make it challenging for them to complete projects on time and within budget.
- **Unforeseen Delays :** Stalled projects may have encountered unforeseen delays such as legal disputes, regulatory issues, or a shortage of skilled labor. Smaller builders may be particularly vulnerable to these delays, which can add to the project's cost and duration.
- **High Dependency On Market Sentiments :** High dependency on market sentiments can be a significant factor in causing project delays. This is particularly true for smaller builders who may struggle to navigate market fluctuations compared to larger builders. In such cases, stalled projects may have been postponed due to market conditions that are beyond the control of the builders.
- **Difficulty In Navigating Regulatory Hurdles :** The regulatory environment in the real estate industry can be complex and challenging to navigate, particularly for smaller builders who may not have the resources to hire legal or regulatory experts.
- **Difficulty In Attracting Investors :** Smaller builders may find it challenging to attract investors to stalled projects. Investors may be hesitant to invest in smaller builders due to concerns about their financial stability and ability to complete the project successfully.

Challenges of metro city projects

- **Land Acquisition :** In India, acquiring land can be a difficult and time-consuming process due to the complex legal and regulatory framework. According to a report, acquiring land for real estate development can take anywhere from 6 months to 2 years. Moreover, land prices in metro cities such as Mumbai and Delhi can be exorbitant, which can increase the cost of the project.
- **Delays In Approvals And Permits :** Obtaining approvals and permits from government agencies can take a significant amount of time in India. According to a report, obtaining approvals and permits for real estate projects in India can take up to 12 months. This delay can significantly impact the timeline and cost of the project.

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• **High Construction Costs :** The cost of construction in India has been steadily increasing over the years. According to a report, construction costs in India have increased by an average of 7% per year over the past decade. The increase in construction costs can be attributed to the rising cost of materials, labor, and compliance with environmental regulations.

• **Lack of Skilled Labor :** India faces a shortage of skilled labor in the construction industry. According to a report by KPMG, India has a shortage of 4 million skilled workers in the construction industry. This shortage can lead to delays and quality issues in real estate projects.

• **Infrastructure Challenges :** India's infrastructure is often inadequate, particularly in metro cities. According to a report, India needs to spend $1.5 trillion on infrastructure development by 2030. The lack of infrastructure can lead to delays and cost overruns in real estate projects.

• **Legal And Regulatory Challenges :** Real estate development in India is subject to a complex legal and regulatory framework. According to a report, compliance with regulatory requirements can take up to 6 months to 2 years. Moreover, the lack of clarity in regulations can lead to disputes and delays in project completion.

• **Market Fluctuations :** The Indian real estate market is subject to fluctuations due to various factors such as economic growth, interest rates, and policy changes. According to a report by Knight Frank, the Indian real estate market witnessed a slowdown in 2020 due to the COVID-19 pandemic. However, the market is expected to recover in the coming years, with demand for affordable housing expected to drive growth in the sector.

CHALLENGES OF TIER 2 AND TIER 3 CITIES

- **Availability of Skilled Labour :** According to a report by the Ministry of Skill Development and Entrepreneurship, there is a shortage of skilled workers in the construction industry in India. The report estimates that the construction industry needs an additional 29 million skilled workers by 2023 to meet demand. This shortage of skilled labour is particularly acute in tier 2 and tier 3 cities, where there are fewer training opportunities and workers often lack the necessary skills.

- **Limited Infrastructure :** According to a report, India needs to spend $1.5 trillion on infrastructure development by 2030. While the government has launched several initiatives to improve infrastructure in tier 2 and tier 3 cities, the progress has been slow. For example, a report by the National Institute of Urban Affairs found that only 16% of cities with a population of less than 1 million have adequate water supply, while only 11% have a sewerage network.

- **Limited Market Demand :** According to a report, the demand for commercial real estate in tier 2 and tier 3 cities in India is growing at a faster rate than in metro cities. However, the demand for residential real estate in these areas is still limited. Developers may need to focus on affordable housing or cater to niche segments such as senior citizens or students to find buyers or tenants.

- **Financing Difficulties :** According to a report by the Reserve Bank of India, the credit-deposit ratio in tier 2 and tier 3 cities is lower than in metro cities. This means that banks and financial institutions may be more hesitant to lend in these areas, as they perceive the risk to be higher.

- **Regulatory Challenges :** According to a report, the regulatory framework for real estate in tier 2 and tier 3 cities is often less well-established than in metro cities. Developers may face challenges in obtaining the necessary permits and approvals, as well as complying with regulations during the construction process. Moreover, corruption and bureaucratic red tape may be more prevalent in these areas, which can lead to delays and cost overruns.

- **Lack of Transparency :** According to a report, the lack of transparency in the real estate market is a major challenge in India. Developers may struggle to obtain accurate information on land prices, regulatory requirements, and other important factors that can affect the project's feasibility. This lack of transparency can make it difficult for developers to make informed decisions and negotiate with landowners.

- **Land Acquisition Challenges :** According to a report, acquiring land can be a major challenge in tier 2 and tier 3 cities. Landowners may be less willing to sell or may demand higher prices due to a lack of supply. Additionally, land titles may not be clear or well-documented, which can create legal and financial risks for developers.

Why is the demand for commercial properties increasing in tier-2 and tier-3 cities?
• Industrial corridors connecting tier-2 and 3 cities could open the floodgates to economic activities in the region.
• Commercial spaces in tier-2 and 3 cities are 4%0-50% less costly, compared to tier-1 cities.
• Supply chain businesses could sustain with lower cost of doing business per sq ft.
• Peripheral locations are ripe markets for logistics and warehousing.
• Manufacturing units to be set up to cater to the large businesses along the industrial corridors.
• Big ticket global funds expected in the commercial properties of tier-2 and tier-3 cities.

STRATEGIES FOR IMPROVING AFFORDABILITY AND ACCESSIBILITY OF HOUSING

THE INTEGRATION OF HOUSING INTO A GLOBAL URBAN DEVELOPMENT POLICY

The integration of housing into a global urban development policy can make housing affordable by increasing the supply of affordable housing, encouraging mixed-income communities, improving affordability through financing mechanisms, implementing land-use policies that prioritize affordable housing, and ensuring equitable access to housing for everyone. Such a policy can help address the root causes of the housing crisis and take a comprehensive approach to house provision.

DEALING WITH STRUCTURAL RIGIDITIES IN THE HOUSING MARKET CAN ENHANCE AFFORDABILITY

In India, population growth and structural factors such as high construction costs, difficulties in land acquisition, and high transaction costs have pushed housing prices up. Compared to OECD countries and other EMEs, it is more challenging to register property and enforce contracts, making it challenging to increase the housing supply and lower prices. In particular, land titling is a significant issue for the housing sector, as land records do not guarantee ownership. The current system of registered sale deeds is cumbersome and costly, and alternative documents such as property tax receipts and survey documents only provide a record of property transfer rather than government-guaranteed titles. To improve the situation, some cities such as Bengaluru have adopted a unique ID number for each property, which can clarify property ownership, facilitate transactions, and prevent fraudulent transactions. Extending this practice to more cities could help make housing more accessible and affordable to more people.

Land records are poorly maintained and difficult to access, but the Digital India Land Records Modernisation Programme aims to improve the quality of land records and achieve complete computerization of the property registration process. However, progress has been slow and differs across states. Prices in India are also pushed up by the low floor space index, which limits the height of buildings in cities and contributes to urban sprawl and air pollution. India should consider relaxing the floor space index to generate more supply and lower prices, but ensuring the quality of construction is essential. A moderate increase in the height limit could lead to a substantial reduction in commuting costs for households living in the periphery.

FURTHER IMPROVING ACCESS TO HOUSING FINANCE CAN REDUCE SOME OF THE SHORTAGE AND RAISE AFFORDABILITY.

The lack of clear and reliable property rights in many countries can negatively impact the housing supply, as it can lead to disputes and legal challenges that discourage investment. To address this, efforts should be made to improve the clarity of property ownership records through the use of unique property IDs, geotagging, and registered property titles. These measures can help establish a clear and accurate record of ownership, reduce the risk of disputes, and provide greater confidence for investors and developers.

City	EMI to Income Ratio					
	2010	2014	2019	2020	2021	Q3 2022
Mumbai	93%	97%	66%	53%	53%	57%
Hyderabad	53%	42%	33%	28%	29%	31%
NCR	48%	57%	34%	26%	28%	30%
Bengaluru	39%	52%	32%	24%	26%	28%
Kolkata	51%	48%	31%	25%	25%	27%
Chennai	47%	47%	29%	29%	25%	27%
Pune	45%	43%	28%	25%	24%	26%
Ahmedabad	46%	40%	25%	20%	20%	22%

The EMI to Income Ratio trend of Indian cities shows varied affordability of housing loans. Mumbai's ratio peaked at 93% in 2010 but dropped to 53% in 2020 and 2021, and slightly rose to 57% in Q3 2022. Hyderabad consistently maintained a lower ratio, ranging from 53% in 2010 to 31% in Q3 2022. NCR saw a decline from 48% in 2010 to 26% in 2020, with a modest increase to 30% in Q3 2022. Bengaluru has maintained a relatively low ratio, ranging from 39% in 2010 to 28% in Q3 2022. Other cities, including Kolkata, Chennai, and Pune, also show a gradual decrease in their ratios over the past decade.

To promote the development of the rental market and encourage property owners to maintain and improve their properties, there is a need to ease rent controls in many states. Aligning state-level rent regulations with the 2019 central government's Model Tenancy Act can provide a framework for regulating rental agreements, promoting consistency, clarity, and efficiency, and creating a more vibrant and dynamic rental market.

The rental market is currently small, and developers have been more inclined to construct high-end buildings. To address this issue, there is a need to provide incentives to the private sector to construct buildings for rent and dwellings for low-income households. This can be achieved through subsidies and public-private partnerships (PPPs), which can help to encourage investment in the construction of affordable rental properties. By doing so, it is possible to promote the growth of the rental market and increase the availability of affordable housing options for low-income households. Land use regulation is stringent, limiting affordable housing supply Relax the Floor Space Index to allow the construction of higher buildings.

To address the housing shortage in urban areas and the increasing pressure of urbanization, there is a need to accelerate the implementation of the Housing for All scheme. This scheme aims to provide affordable housing options to low-income households across the country, and expediting its implementation in urban areas can increase the availability of affordable housing options and create more liveable and sustainable urban environments. Achieving this goal will require collaboration between the government, private sector, and civil society organizations.

The lack of public social rental housing options is a major hindrance to the mobility of low-income households. To address this issue, it is important to include provisions for social housing rental in slum rehabilitation programs, which aim to provide improved living conditions for residents of informal settlements. This can help to ensure that low-income households have access to affordable housing options, promote greater social inclusion and mobility, and support the overall goal of improving living conditions in informal settlements.

Transaction costs are high. They reduce mobility by increasing the cost of moving Lower transaction costs, in particular, stamp duty will help increase affordability.

BEST REAL ESTATE INVESTMENT AND MANAGEMENT PRACTICES : RISK MANAGEMENT, FINANCIAL ANALYSIS AND STAKEHOLDER ENGAGEMENT

Real estate investing is a high-reward, high-risk endeavor. It offers the potential for significant long-term profits, but it also comes with a variety of risks that can quickly eat away at those profits. However, by following specific approaches for risk mitigation in real estate, investors can reduce their exposure to those risks and increase their chances of success.

One of the most important tools for risk mitigation in real estate is market analysis. By thoroughly researching the market and understanding trends, demand, supply, and other key factors, investors can make informed decisions about where to invest and what types of properties to focus on. This includes examining physical infrastructure and upcoming initiatives in the area, such as business or IT parks, social infrastructure, and other important considerations. A comprehensive market analysis can provide valuable insights that can help investors identify potential risks and opportunities.

Another key technique for risk mitigation in real estate is geographic diversification. Investing in multiple properties across different regions can help to reduce risk while increasing overall returns. Regional differences within a country can led to variations in demand and supply, so investing in different geographies can help to mitigate these risks. However, it is important to conduct thorough research on each region and understand the track record of the market in order to make informed decisions.

Asset diversity is also a crucial technique for risk mitigation in real estate. Investing in a variety of asset types, such as housing, industrial, retail, and warehousing, can help to disperse risk across assets and limit the total impact of any potential slump in a certain category. This approach can help to maximize profits while reducing the impact of market and economic risks.

Another key tool for risk mitigation in real estate is conducting a developer credibility audit. This involves researching the credibility and reputation of the developer, as well as examining the functional component of the project, including utilities, room layout, design, and specifications. Working with a reputable developer can greatly reduce the risk of a project being halted or running into other issues that could negatively impact returns.

Property investment is a physical asset that requires a medium- to long-term perspective in order to reap the rewards of the transaction. Understanding one's own risk tolerance and time horizon can help investors make smart choices that will help them weather any downturns in the market and maximize returns over the long term.

PROPOSED SOLUTIONS TO ADDRESS REAL ESTATE CHALLENGES

INTRODUCTION

In today's rapidly changing business environment, having adequate capital is not enough. It is crucial to have an efficient capital structure that caters to the short-term and long-term funding needs of companies. A well-designed capital structure can be useful in ensuring the proper utilization of funds and keeping projects on track. One can achieve this by leveraging options like bridge loans, loans to suppliers, and working capital.

WORKING CAPITAL IN PLACE OF TERM FUNDING/CONSTRUCTION FINANCE

The fundamental thought process for funding projects is to bridge the funding requirement for the purpose of bridging or completing the finished product. This requires short-term revolving working capital funding and not term capital or long-term funding that is meant for acquiring capital goods or assets. This alone changes the whole scenario where the funding requirements are met, and the repayment issues are sorted out. Command and control of the drawing power are with the lending banks, which derives from the sales and the progress of construction certified by third-party valuers and chartered accountants for the investments.

70% VS 35% FUNDING

Presently, only 35% of the project cost is being funded by the banks, and 35% is expected to be mobilized from sales during construction. This is leading to large marketing campaigns, timeline commitments not met due to slower sales velocity for any reason, pressure on repayment even during construction, and various defaults with customers, suppliers, bankers, RERA, statutory bodies, etc., which are all dependent on sales velocity. 30/70 means 30% from the promoters and 70% from the banks of the total input cost. This essentially means that with 40% GP added, the maximum exposure is only 50% of the sale value. The banks' risk is only 50% of the project at Max, which is further reduced by stage-by-stage release and sale. Assured funds will reduce the cost of funds, reduce input cost from better bargaining power, better products from better suppliers, better prices for the finished products because of reduced risk to buyers, better corporate governance, and various other positive chain reactions.

INCREASE IN SALES VELOCITY BECAUSE OF ASSURED COMPLETION TIMELINES

The biggest problem during the sale of units is committing to completion and possession timelines, which is heavily dependent on the sales velocity. For playing safe, the promoters promise longer dates, and so the sales decisions also get delayed, creating an overall slower completion cycle. Confirmed sources of funds will assure confirmed timelines, and confirmed timelines will assure higher sales velocity.

PROJECT-BASED FUNDING AS AGAINST PROMOTER-BASED

Project performance-based funding and not promoter-based funding is the biggest risk currently. This will ensure zero diversion, a consortium of promoters to join and promote projects, end-to-end clarity on operations, corporate governance, no scope for deviations, and many such advantages. Project-based funding will shift the focus from individual promoters to project performance, leading to better risk management and overall better outcomes.

THE ROLE OF NAREDCO & NAREDCO FINANCE COMMITTEE

INTRODUCTION

The real estate industry in India is faced with numerous challenges, including but not limited to regulatory frameworks, financing, land acquisition, and market demand. NAREDCO, the premier real estate government industry association of India, was established in 1998 under the aegis of the Ministry of Housing and Urban Affairs, Govt. of India. Its primary objective is to provide a platform for the government, the real estate industry, and the general public to address concerns and find effective solutions for issues plaguing the sector.

FUELLING GROWTH OF THE REAL ESTATE INDUSTRY WITH NAREDCO

NAREDCO aims to raise the standards of operations related to building, construction, and marketing in the real estate sector. The organization actively participates in the formulation of national policies for fiscal reforms and works towards boosting economic development by acting as a catalyst in the Indian Real Estate Industry.

One of the core functions of NAREDCO is to act as a bridge between the Indian real estate industry and the government. The organization actively participates in the formulation of key policies and reforms affecting the real estate sector. Through its advisory and consultative processes, NAREDCO works to drive growth and development in the Indian real estate sector. It brings the issues plaguing the sector to the notice of the government and creates awareness around them.

NAREDCO organizes meetings, seminars, webinars, events, conferences, and releases reports on issues pertaining to the real estate sector and allied activities. It acts as the collective voice of the real estate industry while promoting cohesion and cooperation among the members of the sector. The organization comprises National, State, and City Councils, ensuring that the policy recommendations by NAREDCO are a true reflection of ground realities and capture the geographical spread. While the National Council concentrates on macro issues, the State Councils address state-level concerns, and City Councils focus on local and ground issues.

NAREDCO FINANCE COMMITTEE

The NAREDCO Finance Committee of NAREDCO plays a crucial role in solving one of the major challenges faced by the real estate sector - lack of access to finance. The committee comprises of prominent financial institutions, investment bankers, specialized funds, non-banking financial companies (NBFCs), private equity firms, lending consultants, and banks.

The committee works towards making the required finances available for all segments of the real estate sector across the country. It plays a vital role in bridging the gap between the demand and supply of funds for real estate projects. By bringing together diverse financial players under one platform, the committee can leverage their expertise and experience to create innovative financial models tailored to the needs of the real estate sector.

The committee focuses on facilitating access to capital for developers, enabling them to complete their projects on time and meet the growing demand for affordable housing in the country. It also works towards providing funding options for real estate buyers, helping them to make informed decisions when investing in properties.

Through various initiatives, the NAREDCO Finance Committee has been able to increase the availability of capital for the real estate sector, thereby promoting growth and development. The committee also acts as a platform for knowledge sharing and capacity building, bringing together experts from different domains to share their insights and best practices. This has helped in creating a more robust and resilient real estate ecosystem in the country, capable of meeting the needs of all stakeholders.

NAREDCO FINANCE CONCLAVE

INTRODUCTION

The National Real Estate Development Council (NAREDCO) has announced its plans to hold a Finance Conclave to address the financial constraints faced by the Real Estate Industry. The Conclave is curated to bring all financial institutions on one platform and assist Builders/Developers and Real Estate Industry in meeting their financial requirements.

The Real Estate Industry is undergoing tremendous changes, and to cope with these changes, enormous efforts need to be put in a focused manner. The critical component of project planning is the financial outlay, which decides the success or failure of the project. Insufficient funding makes many projects unviable and stressed, creating chaos in the market.

The Finance Conclave is the brainchild of the NAREDCO Finance Committee (NFC) and aims to enable developers to have easy access to funds based on the merit and viability of the projects. NFC will facilitate its members to access funds professionally while matching its members' financing requirements with banks, financial institutions, and Non-Banking Financial Companies lending to the real estate sector.

The Conclave will bring different financial institutions and builders on one platform to highlight the problems and develop solutions for all stakeholders. It aims to develop scientific and practical financial instruments, policy interventions, and assistance from the Ministry of Finance and the Ministry of Housing and Urban Development.

INITIATIVES AND ACTIVITIES

During the NAREDCO Finance Conclave, several initiatives will be announced to address the financial challenges that the Real Estate Industry is expected to face in the future. One such initiative will be the launch of Fund City, which aims to provide easy access to funds for developers based on the merit and viability of their projects. Additionally, several MOUs will be signed with banks and fund houses to facilitate the financing of real estate projects. The Finance Conclave will also witness the launch of new banking products, highlighting the efforts being made to address the financing requirements of the Real Estate Industry in the future. These initiatives will demonstrate NAREDCO's commitment to bridging the demand and supply of financial needs and finding actionable solutions to support the growth of the Real Estate Industry in the future.

RIGHT FUNDING FOR THE RIGHT PROJECTS

The NAREDCO Finance Conclave aims to address the unique financial needs of the real estate industry, which is diversified and segmented across various cities and project types. The focus is on the right funding for the right projects, based on their strengths and potential, rather than solely relying on the past performance of promoters. This requires due diligence to determine whether a project is good or bad and then choosing the right type of funding from the various options available, including debt, equity, greenfield, bridge or last-mile funding, PE, NBFC, or banks, among others. The initiative also invites applications from stressed projects for rescue funding from a group of social impact funds and specialized fund houses, and new project funding from banks, NBFCs, PEs, and specialized fund houses. This one-stop platform aims to provide timely, essential, profitable, and creatively structured funding to ensure the success of real estate projects.

FUND CITY

NAREDCO is launching Fund City, a consortium of fund houses, banks, and other financial institutions to help real estate projects in India. Fund City's objective is to provide funding for all stalled, stressed, and new projects without discrimination. It will also include investment bankers and consultants to analyze and assist in processing funding applications. The launch of Fund City is expected to have a positive impact on the Indian economy, and employment market, and encourage entrepreneurship in the real estate sector. Getting funds from Fund City will be a simple process, and the full process of allocation by the chosen fund house will typically be completed within 30 working days. The list of fund houses and banks that are part of Fund CITY will be shared at the conclave.

KEY FINDINGS

CHALLENGES AND ANOMALIES

The real estate industry in India is plagued by a multitude of challenges, which create difficulties for all stakeholders involved. Homebuyers face significant delays in the possession of their homes, leading to potential financial losses. These stalled projects can also damage their credit scores and lead to lengthy legal battles. On the other hand, builders face cash flow problems, loan repayments, and difficulty in securing further funding due to the significant debt burden of the sector. Banks also face challenges with due diligence processes and fund diversion, leading to difficulties in financing projects.

One of the significant anomalies in the real estate industry is that it operates on a precarious assumption that there will be no interruption, slow down, or halt in the project at any stage of its life cycle. This assumption is not always true and can lead to significant problems for all stakeholders involved. There is an urgent need for tailored banking solutions that can match diverse real estate projects across different geographies and sizes.

REVAMPING REAL ESTATE FINANCING

The current formula for financing real estate projects, which relies on 1/3rd sales, 1/3rd promoter contribution, and 1/3rd bank loans, is flawed and problematic. A more effective solution would be for banks to consider land as part of the promoter's contribution, with banks financing the remaining 70% funding. This can help to reduce the debt burden on builders and provide them with more flexibility in financing their projects.

Revisiting the funding landscape can also help address some of the challenges in the real estate industry. An efficient capital structure is required, and not just capital. An efficient capital structure is crucial for businesses to ensure the success of projects in today's rapidly evolving business environment. It is not enough to have access to capital; a capital structure tailored to meet the short-term and long-term funding requirements of businesses is essential. Bridge loans, loans to suppliers, and working capital play a crucial role in adequately funding projects. Shifting focus toward short-term revolving working capital funding can bridge funding requirements and ensure the timely completion of projects. Banks' exposure should be increased to 70% to reduce the risk of defaults, marketing campaigns, and pressure on repayment during construction. With assured funds and project performance-based funding, businesses can enjoy better risk management, corporate governance, and overall better outcomes.

In conclusion, the real estate industry in India faces multiple challenges that require significant attention and solutions. Tailored banking solutions, revisiting the financing landscape, and addressing anomalies and misconceptions can help provide more flexibility and stability in the industry.

NAREDCO

NAREDCO FINANCE CONCLAVE

RIGHT FINANCING FOR THE RIGHT PROJECTS

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